

Pieter Vanhuysse

DIVIDE and **PACIFY**

**Strategic Social Policies and Political
Protests in Post-Communist Democracies**



With a Foreword by János Kornai

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in Post-Communist Democracies**

Pieter Vanhuysse



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Foreword

While I am writing these lines, cars are aflame in the suburbs of Paris and other French cities. A state founded on the rule of law can obviously not tolerate vandalism. It should protect order and private property, and punish violent transgressions of the law. But that, of course, cannot be the only response. It is equally important for political decision-makers, their advisors, and researchers of social phenomena to explore what factors have led to these mass events. What social circumstances have generated the frustration of those young people who commit these acts of vandalism, and led to their rage bursting out in such criminal activities? The motives must include the mass unemployment affecting these young people, the depressing conditions prevailing in ghettos inhabited by immigrants, the neglected state of their education, their isolation, to a large extent self-imposed seclusion and their alienation from the majority population.

These recent French riots serve to demonstrate the importance of Pieter Vanhuysse's book. *Divide and Pacify* actually asks the reverse question. After the big changes of 1989–1990, unemployment in post-communist Eastern Europe hit people without warning and as a shock. This phenomenon had been unknown for decades. Apart from its numerous cruel and dysfunctional features, the socialist system created favourable conditions for full employment. What is more, circumstances of the general shortage economy inevitably led to a chronic shortage of labour, which literally guaranteed job security. After 1990, all this ceased to exist with traumatic speed. It was not only “normal” unemployment—usual in capitalism—that suddenly emerged. Production, in fact, dropped severely and a “transformational recession” set in that proved to be deeper than the

depression of 1929–32, which had been believed to be the most severe crisis in the era of capitalism. Jobs ceased to exist on a massive scale, either because of bankruptcies of a large number of firms, or because new owners, quite understandably from the point of view of economic efficiency, refused to pay wages to someone “unemployed on the job” (i.e. not needed, nevertheless kept within the company), or because the production of certain products ceased after a reorganisation.

“Why has this trauma *not* led to mass protests and social explosions that violated the law, overthrew the legal order or at least seriously hindered or stalled economic reforms” asks the author. *Divide and Pacify* applies careful analysis in order to find an explanation. This book sheds light on a thus far neglected aspect of the postcommunist transformations: the role of the state in preempting social protests by the strategic use of social policies, and how these policies have contributed to fast reform progress.

Let me point out two important phenomena here. One is that unemployment benefits were introduced before unemployment emerged in masses. (This had been unknown in the socialist economy. On the contrary; healthy people were legally *obligated* to take up some kind of work, or else they would be classified “parasites.”) The other phenomenon was that masses of people took early retirement after 1990. Legal regulations were amended to promote this, but something else played an even greater role. Employees were openly encouraged to retire or at least faced hints that they should do so. Large numbers of people were officially declared disabled; a practice that was tolerated and that came close to a violation of law. In order to obtain disabled status, reference had to be made to some kind of a health problem. Needless to mention, a health problem can, perhaps with a little effort, be identified in almost all people. Bureaucrats in charge of regulating the labour market and medical doctors issuing the certificates of disability sensed that they were expected to facilitate this process, rather than strictly safeguarding the relevant rules.

The evaluation of these developments from the point of view of economics is debatable if we take into account the efficient use of the labour force and the fiscal difficulties that emerged after paying the pensions to those who took early retirement or became eligible to disability benefits. This much, however, is certain: these social measures helped a lot in relaxing political tensions. As with the health of humans, *preventing* troubles is the most effective method to preserve a healthy functioning of so-

cieties. It is milder and causes less harm than combating an already manifested problem.

Pieter Vanhuyse is truly suited to explore and analyse these probing and complex social phenomena. If he were a narrow-minded political scientist, he would only be interested in the political aspects of events. If he were an economist with a one-sided vision, he would only focus on aspects of the labour market and the fiscal burden of social policies. Luckily, he is one of those few people who I would call a social scientist. He is a political scientist, an economist and a sociologist in one person. Through his original synthesis of insights from these various disciplines, he shows how an interdisciplinary perspective can help to make better sense of phenomena that appear to be puzzling, or that remain unaddressed, from the point of view of any one discipline. In addition, this book also draws our attention to larger political–philosophical and ethical aspects of social policies and post-communist transitions.

This is a book about Poland, Hungary, and the Czech Republic, written by someone who was brought up elsewhere. However, Pieter Vanhuyse approaches the problems of these countries with a multi-cultural attitude in the best sense. He is not one of those Western advisors who, during the transition, paid short visits with an arrogant feeling of superiority, thinking that they know very well what would benefit or harm post-communist countries. While Vanhuyse knows a lot about the history and experiences of other countries, he came to Hungary with the primary purpose of observing and understanding, only then to draw conclusions from what he had learnt.

Divide and Pacify was inspired not only by the author's careful empirical work, knowledge of the international literature, competence and intellect, but also by his compassion and solidarity with people. It suggests that extensive social policies can be politically efficacious strategies, while never forgetting that such measures are needed to alleviate people's suffering in the midst of traumatic social changes. Pieter Vanhuyse is not one of those who get easily excited whenever people take apart roads, build barricades, throw cobblestones at police, set fire to others' property, or break shop windows. Anyone familiar with him knows that he is a gentle person who prefers conviction and understanding—something that is reflected in this book through a carefully measured tone of argument and an unbiased and nuanced phrasing of conclusions. But the core message of this book is important, and it has a larger relevance across many settings in which democratic governments face the task of

implementing costly reforms in complex and uncertain policy environments.

When a young talent appears on the horizon, it might be useful if a more senior author draws readers' attention to his work. But from then on, the work will speak for itself. Pieter Vanhuysse's next book will surely not need a preface written by someone else. That is because his name will be familiar and respected by that time, also because of the values of this first book.

Budapest, November 2005

János Kornai

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With unbelievable friendship, Zvia Breznitz pushed and pulled me forward to the final paragraph. To her, this book is dedicated with gratitude.

Ghent, October 2005.

CHAPTER 1

Introduction

Transitions to democracy, especially when accompanied by deep economic reforms, have often led to massive strikes and protests. Periods of expanding political opportunities have historically been conducive to large-scale protest cycles and to the emergence of more disruptive and violent protest repertoires (Tarrow, 1989; Tilly, 2003). Generally speaking, democracies can be expected to be more protest-prone than authoritarian systems because they allow their citizens greater freedoms of expression. For instance, strikes have been almost three times as frequent in democracies as in authoritarian regimes in the twentieth century, and demonstrations and riots almost twice as frequent (Przeworski et al., 2000). In Central and Eastern Europe after the fall of the Berlin Wall, the “systemic” shift from communist one-party states and planned economies towards competitive democracies and market economies has been accompanied by heavy social costs. The political opportunities for reform losers to protest against these costs were definitely larger than under communism. And yet, there have been comparatively few violent and disruptive labor strikes and reform protests in the new East European democracies. This book offers an in-depth discussion of the Hungarian, Polish and Czech cases. Although I venture on occasion into the present century, my main concern is with the uncertain, exhilarating and fast-changing first seven years of the post-communist transition, 1989 to 1996.

In developing social policy-based explanations of post-communist protests, this book follows the lead of influential work on the links between labor militancy and (neo)corporatist institutions, class, and labor market strategies.¹ It marries two venerable research traditions: the poli-

tics and sociology of contention² and the comparative political economy of welfare states.³ Since Gøsta Esping-Andersen's seminal *The Three Worlds of Welfare Capitalism* (1990), political economists have increasingly understood the need to study welfare states as embedded within society's larger model of democratic capitalism. The unit of interest should be welfare *regimes*; "inter-causal triads" composed of the labor market, the household level, and the welfare *state*. Rather than inquiring how political and social cleavages shape welfare states, Esping-Andersen made the case for analyzing welfare states in their role of independent, causal variables. Different types of welfare states, he argued, systematically influence social and political behavior in advanced capitalism. He showed that national welfare states have crystallized during the course of the twentieth century into three distinct "worlds" that differ qualitatively in the social rights packages which they offer to their citizens: the neo-liberal regime (the Anglo-Saxon world), the conservative-corporatist regime (Continental Europe) and the social-democratic regime (the Nordic countries). These regimes will on various occasions serve as a benchmark for comparison with Central and East European cases, while my discussion of the collective action capabilities of reform losers will be centered on the causal influence of labor market and welfare program constellations.

This book is also part of a rich and voluminous literature on the politics and political economy of democratic transitions and economic reforms.⁴ In line with this literature, I view incumbents as assessing welfare spending primarily in terms of how well it serves their short-term political objectives (Greskovits, 1996; 1998). While post-communist economic reforms such as those pursued after 1989 were likely to improve aggregate welfare in the long run, there was a serious risk that many citizens were not willing, or able, to make the necessary inter-temporal trade-offs to see these reforms through. In Haggard and Webb's (1993, 158) words: "From a long-term perspective, the social benefits of reform outweigh the costs. The political issue is whether adequate mechanisms exist to marshal support among winners and to neutralize or compensate losers within a time frame that is relevant to a politician."

As the literature on reforms has specified, politicians are likely to face strong resistance to reforms whose benefits are dispersed and whose costs are concentrated, whereas they are more likely to be able to pursue reforms with concentrated benefits and dispersed costs. Especially if dispersed-benefit/concentrated-cost type reforms are intense or protracted,

aggrieved reform losers will want to stall or reverse the reforms before their positive effects have started to manifest themselves. However, social policies can accomplish more than accommodate exogenously given groups of reform winners and losers. They can be used in an effort to prevent the articulation of political opposition into disruptive forms of protest. Instead of merely providing temporary compensation or basic safety nets for those who are worst hit or who protest most, incumbents can devise strategic social policies to *preempt* protests by reducing the capacity of reform losers to mobilize. While I focus in detail on three Central European democracies, I believe that a “strategic social policies” lens can throw new light on political developments in many other democracies implementing deep reforms.

Governments in liberal democracies are not always limited to merely accommodating citizens’ fixed preferences. Incumbents usually have some leeway to shape preferences or otherwise to pursue policies designed to favor their own political objectives.⁵ While it is not easy to assess with certainty the impact of proactive strategies, they plausibly help to explain the ability of long-lasting leaders such as Margaret Thatcher and Felipe Gonzalez (who won respectively three and four consecutive national elections).⁶ Both leaders implemented a number of bold but ultimately successful policies to reshape political preferences, before going out to face their voters in highly personalized elections.⁷ By their very nature, the early stages of the post-communist transformations differed from politics-as-usual contexts characteristic of well-established democracies in ways that made them more conducive to proactive policies. Under communism, special interest groups were either formally incorporated within the state apparatus or repressed and marginalized, adding up to societies consisting of “*nothing else but* ‘policy-takers.’”⁸ Yet one may agree with this characterization of communist state-society relations without drawing deterministic implications about post-communist politics. While civil society started from a weak position because of past legacies, citizens also enjoyed greater legal opportunities than at any time since the Second World War for expressing their interests.⁹ Party systems and voter loyalties were still in an early stage of formation. Combined with high electoral volatility, this made proactive government strategies at the same time more urgent (a matter of short-term survival) and more rewarding (promising large payoffs). Policymakers faced the task of directing simultaneous transformations of multiple policy domains. Because of their wide scope and complexity, this task has been likened to

rebuilding the ship at sea.¹⁰ While this undoubtedly produced policy overload relative to existing administrative capacities, this context also provided politicians with critical opportunities to shape policies to their own benefit.¹¹ Agencies, institutions, and constitutions—the very rules of the social game—were shaped and reshaped continuously during the early 1990s.¹² Riding a wave of broad popular support after the toppling of hated regimes, post-communist policymakers initially benefited from what one key player dubbed “windows of opportunity” of “extraordinary politics” (Balcerowicz, 1995). Even after these early windows were closed and the social costs of reforms soared high, policymaking powers remained overwhelmingly concentrated in the executive branch of government (Bunce and Csanady, 1993).

Post-communist politics thus allowed a substantial operational space for governments to use their state power to try and preempt disruptive collective action.¹³ This book focuses on protests that were primarily economic in nature. I look at protests pursuing policies that would directly benefit the protesters, such as farmers demonstrating for higher subsidies or food price increases, or workers striking for higher wages or industrial protection. Though the distinction is sometimes blurred, this focus on economic protests excludes actions that are primarily solidaristic or symbolic, such as flag burnings, memorials of historical events, or campaigns to express group identity or international solidarity. In contemporary Western democracies, where “new social movements” have crashed onto the protest politics scene, such a focus might risk missing out on the brunt of collective action. In post-communist societies, however, this represents less of a danger. The large majority of protests in early transition were “materialist” and “economic” in the sense of being organized by pre-existing and traditional (rather than emerging) social groups, and with the object of pursuing distributional goals rather than post-industrial, symbolic or identity-based issues.¹⁴

The book is structured as follows. Chapter 2 briefly reviews the literature on economic reforms and austerity protests in developing countries during the 1970s and 1980s and on the political salience of the social costs of post-communist transitions. Both factors led many seasoned observers to expect protest waves and political instability in post-communist Europe. Yet, as Béla Greskovits (1997; 1998) first noted, these transitions have been surprisingly crisis-proof. Revisiting this puzzle, I show that strikes in six Central and East European democracies have been lower in the early 1990s than in selected Latin American countries in the 1980s—

and even when compared to contemporary Western democracies. Chapter 3 concedes that by many “structural” yardsticks, including high levels of unionization and of employment in smoke-stack industries and non-competitive agriculture, the threat of large-scale protests was very real indeed around 1989–1990. But this only serves to highlight the subsequent quiescence of post-communist polities. I show why existing explanations of this quiescence, based on macro-level variables such as unemployment levels, corporatist institutions, or levels of education, poverty and income inequality, are not entirely persuasive. More attention needs to be paid to the ways in which strategic policies by governments could countervail this threat.

To start such an analysis, chapter 4 specifies an effective political mechanism through which policymakers could pacify post-communist societies.¹⁵ Local clusters of threatened workers could be split up by letting some of them go onto unemployment benefits and transferring many others onto “abnormal” pensions—early and disability retirement.¹⁶ This strategy could be expected to channel the expression of grievances away from disruptive repertoires and towards more peaceful repertoires. Unemployed people and non-elderly pensioners were likely to have a lower capacity to mobilize for disruptive protests because they had short-reach social ties and were locked in distributional struggles over scarce state resources. Revisiting a theme by Hirschman (1970) and Greskovits (1998), I suggest that at a time of declining living standards, the unemployed and abnormal pensioners had stronger incentives to “exit” into the informal economy, instead of pursuing public goods through political “voice.” Chapter 5 indicates that social policy packages consistent with such a “divide and pacify” hypothesis, while absent in the Czech Republic, were implemented on such a large scale in Hungary and Poland that they led to Great Abnormal Pensioner Booms. Chapter 6 discusses alternative theoretical explanations for post-communist social policies. I argue that Czech governments resorted to a different brand of strategic social policies, aimed primarily at preventing employment losses, rather than dealing with their political consequences. I show how these choices have given rise to distinct, yet largely peaceful, welfare pathways as the 1990s progressed. While these strategic social policies have been costly in public–financial terms, they cannot be coherently interpreted as the mere result of unintended or incremental decision-making. These policies may have aided the implementation of economically efficient reforms, for instance by solving the time inconsistency of compensation promises, by

raising average worker productivity, or by reducing individual-specific uncertainty. And crucially, social policies brought important political payoffs. They helped to pacify the Hungarian, Polish and Czech polities at a time when the short-term danger of large-scale conflicts was highest, and they could be expected to reduce this danger progressively as time went by. In so doing, they freed up state resources for other goals and contributed to the widely acknowledged transition success stories in Hungary, Poland and the Czech Republic.

NOTES

- 1 On advanced economies, see Korpi (1983), Lange (1984), Katzenstein (1985), Pontusson and Swensson (1996), Golden (1997; 1999), Garrett and Way (1999), Kitschelt et al. (1999), Hall and Soskice (2001), Thelen (2001), Bermeo (2001a). On developing countries, see Nelson (1991; 1992; 1993), Collier and Collier (1991), Smith et al. (1994) and Murillo (2000). I thank Béla Greskovits for directing me to these literatures.
- 2 E.g. Shorter and Tilly (1971), Snyder and Tilly (1972), Snyder and Kelly (1976), Tilly (1978, 2003), Crouch (1982), Bienen and Gerskovits (1986), Taylor (1988a,b), Tarrow (1989, 1998), Walton and Ragin (1990), Chong (1991), Ost (1993; 1995; 2001; 2005), Walton and Seddon (1994), Oberschall (1994), Lichbach (1994), McAdam et al. (1997), Golden (1997), Crowley (1997; 2004), Ashwin (1998), Guigni et al. (1998), Greskovits (1998), Crowley and Ost (2001), Dixon and Roscigno (2003).
- 3 On welfare regimes, see Esping-Andersen (1990, 1994, 1996a, 1999), Esping-Andersen et al. (2002), Pierson (1993, 1996, 2001a, 2001b), Stephens et al. (1999), Wood (2001), Swank (2001). On pensions, see Myles (1984), Myles and Pierson (2001), Vanhuyse (2001, 2004b). On welfare attitudes, see e.g. Sabbagh and Vanhuyse (2005; 2006).
- 4 See Przeworski (1986, 1991, 1993, 2001), Fernandez and Rodrik (1991), Offe (1991; 1993), Ekiert (1991), Nelson (1992; 1993; 1997; 2001), Haggard and Kaufman (1992; 1995), Haggard and Webb (1993, 1994), Bresser Pereira et al. (1993), Bruszt (1993), Balcerowicz (1995), Graham (1995), Greskovits (1996; 1997; 1998), Rodrik (1996), Bartlett (1997), Stark and Bruszt (1997), Ekiert and Kubik (1998a,b; 1999), Ashwin (1998), Vanhuyse (1999, 2004a), Ost (1993; 1995; 2005), Crowley and Ost (2001), Stokes (2001a,b), Kornai et al. (2001), Howard (2003).
- 5 See Dunleavy and Ward (1981), Dunleavy (1991), Stokes (1998), Przeworski (1998). For a review, see Vanhuyse (2002a), for an empirical test, see Stubager (2003). This literature goes against pluralist and formal approaches to politics (e.g. Downs, 1957; Wittman, 1995) that start from the assumption that politicians accommodate their platforms and policies to the (fixed) preferences of the electorate. A separate literature further questions this assumption. Voters' choices vary systematically according to the way in which these choices are presented—framed—to them (Quattrone and Tversky, 1988; Tversky and Kahneman, 1981, 1987). In evaluating incumbents, the weights that

voters assign to different policy domains vary according to which domains are made accessible to them, or are suggested—primed—as important (Iyengar and Kinder, 1987; Iyengar, 1990).

- 6 For instance, the percentage of voters who saw Gonzalez as the main reason for supporting the government was 22 percent in 1986, 14 percent in 1989 and 23 percent in 1993 (Maravall, 1999, 188). Spanish NATO membership provides a salient example of successful preference shaping. Gonzalez unexpectedly called a referendum on the issue in March 1986 and threw his whole weight behind a yes vote even though initially only 19 percent of voters supported membership. When one month before the referendum support still stood at 26 percent, he put his head on the line by announcing his resignation in case of defeat. Gonzalez eventually won the March referendum by 53 percent and went on to win an absolute majority of seats in the June elections (Maravall, 1993; 1999, 181–183). Similarly, Thatcher reduced the size of the traditionally Labour-oriented electorate of public sector workers and public tenants by aggressively privatizing state enterprises and by selling over 1.5 million public housing units to private occupants, often at reduced prices (Dunleavy, 1991, 120–121; King and Wood, 1999, 383; but see Stubager, 2003).
- 7 Pro-active leadership may also account for aggregate findings which, at first sight, appear to weaken the preference shaping thesis. Page and Shapiro (1983, 1992) have found a high degree of congruence between public opinion and public policy in the US. They claim that changes in politicians' behavior have more often followed changes in public opinion than they have preceded them. Yet Page and Shapiro (1983, 187) also estimated that in up to half of the cases of congruence between policy and opinion, there was a likely causal effect from the former to the latter. And in Page and Shapiro (1992), the most significant variable in multivariate regressions on political opinion was, precisely, strong political personalities—a phenomenon the authors labelled “the leadership effect.”
- 8 Ost (1993, 459, original emphasis), see also Ekiert (1991), Bruszt (1993). However, I doubt that, as a consequence, “none of these [interest] groups constitutes a set of independent interests that can form the basis of a party or program in a democratic future” and that this may have resulted, in turn, in the “successes of non-liberal, non-interest-based parties” (Ost, 1995, 459, 461).
- 9 It is therefore unconvincing to point to weak agency (Elster et al., 1998, 13) or to impute interest groups' organizational weaknesses to unawareness (Ost, 1993, 457) as a way of explaining the low levels of post-communist collective action. Nor did the disintegration of one-party states and the restoration of democratic liberties result in “weak and unstable coalition governments unable to carry out the [necessary] radical reform” (Ekiert, 1991, 312).
- 10 Elster et al. (1998). On the simultaneity and complexity of post-communist reforms, see also Elster (1990), Offe (1991), Przeworski (1991), Barr (1994a), Balcerowicz (1995). On the high levels of electoral volatility in transition, see Tóka (1999).
- 11 For instance, in Hungary the first free elections were held on 25 March 1990, whereas the Constitution came into place on 31 December 1990. In Poland, there were first partially free elections for the Sejm in June 1989, but the major constitutional revision came only on 23 November 1992. In the Czech Republic, the first elections were held on 8 and 9 June 1990, whereas the constitution came into place only on 16 December

- 1992 (Rose et al., 1998, 59). On administrative limitations, see the contributions to Elster et al. (1998) and Barr (1994b; 2005).
- 12 In Hungary, even the nominal independence of the Central Bank was eroded by governments and usurped for partisan purposes. Prime Minister Horn, who headed the second democratic government, forced his Central Bank president to resign well before the end of his six-year term in favor of György Surányi, declaring that he would rather “seek one of our men.” A few years earlier, Surányi himself had been ousted from the same post by Antall, the first prime minister (Stark and Bruszt, 1997, 240fn.).
 - 13 Institutional factors often strengthened the relative power of governments. In Hungary, prime ministers enjoyed strong executive authority due in part to the constructive vote of no confidence device, which required alternative governments to be formed when incumbent governments fell in parliament. Hungarian electoral laws also strengthened election winners. Thus the coalition partners in the 1990–1994 Antall government had seen their 45 percent of votes translated into over 60 percent of parliamentary seats, whereas in the 1994–1998 Horn government the prime minister’s party alone had seen its 36 percent of votes translated into 54 percent of seats (Stark and Bruszt, 1997, 170). Electoral laws were less favorable to incumbents in the Czech case. During the first post-communist government, the ODF party of Finance Minister Vaclav Klaus saw its 30 percent of votes translated into 38 percent of seats in the Czech National Council. Moreover, governments had to cope simultaneously with the increasing strain and subsequent break-up of the Czechoslovak federation (Stark and Bruszt, 1997, 179–182).
 - 14 Ekiert and Kubik (1998b, 101, 106–108; 1999, 124–126, 184–185), Ost (2005). On new social movements, see Guigni et al. (1998), Kriesi (1999).
 - 15 Throughout the book, I adopt the simplifying assumption that government coalitions act as unitary actors with respect to collective protests and welfare policies. Government objectives in these fields are taken to be similar for all coalition partners, or alternatively, to be the end-result of a black box process of intra-coalition bargaining. On the latter, see Tsebelis (1990). On party strategies, see Przeworski (1985; 1991), on strategic methods in policy research, see Schelling (1978), Dixit (1996) and Scharpf (1997). This book, however, does not rely on game theory; a method with limited usefulness in a context such as the early 1990s, when the game rules (constitutions, institutions) were in constant flux. While extensively drawing on existing literatures, the book does not itself propose a detailed study of related issues such as macro-economic stabilization (Mundell, 1997; Kornai, 1997), privatization design (Stark and Bruszt, 1997; Orenstein, 2001), labor market economics (Barr, 1994b; 2005; Boeri et al., 1998) and pension design (Müller, 1999; Müller et al., 1999; Vanhuyse, 2001; Holzmann et al., 2003; Barr and Rutkowski, 2005).
 - 16 The term “abnormal retirement” is used as a convenient catch-all phrase. It should not be taken to carry any pejorative connotations whatsoever. I use the terms “transition” and “transformation” interchangeably to cover the period of reforms during the 1990s, not just the “revolutions” around 1989–1990. Lastly, I refer to inhabitants of the Czech lands as “Czechs,” even before the Czechoslovak velvet divorce of 1993.

CHAPTER 2

The Unexpected Peacefulness of Transitions

“The East has become the South.”

Adam Przeworski (1991, 191)

Deep economic reforms, however urgent, often have short and turbulent life spans. During the 1970s and 1980s, a large number of countries in Latin America and the developing world experienced repeated waves of protests, strikes, riots, and casualties in reaction to socially costly austerity policies. By many yardsticks, the emerging democracies of Central and Eastern Europe found themselves in similar conditions shortly after 1989. Expanding protest opportunities combined with higher-than-expected social costs in the form of generally increasing poverty rates and unemployment levels, and falling real wages, real incomes, and output levels. Not surprisingly therefore, a number of observers feared that the early 1990s in this region were likely to involve similar scenarios of disruption in the polity because of large-scale protests. This chapter revisits earlier findings on post-communist protests, notably by Greskovits (1997; 1998) and Ekiert and Kubik (1998b; 1999). I also present a new set of indicators of industrial action in six Central and Eastern European countries between 1990 and 1995. I compare these with six countries from the three worlds of advanced welfare capitalism and with four Latin American democracies during the 1980s. Post-communist transitions, it turns out, have actually been surprisingly quiescent.

2.1. Social costs and early breakdown prophecies

Post-communist transitions were characterized by a reduced scope for government intervention, the hardening of budget constraints, the partial dismantling of communist firms and social benefits, and “great contrac-

tions” of economic output similar only to the Great Depression.¹ The initial social costs that accompanied these reforms have been higher and longer-lasting than originally expected, although the Czech Republic is an exception in some ways. Compared to 1989 levels, average real income per capita was down by 12 percent in Poland by 1993, by 13 percent in Hungary, and by 18 percent in the Czech Republic. Real wages were down by 12 percent in Hungary by 1991, by a quarter in Poland, and by over thirty percent in the Czech Republic. In subsequent years, real wages recovered in the Czech Republic, while remaining stable in Poland and further eroding in Hungary.² Given the evident need to liberalize and privatize the economy, many East European citizens had expected, and a handful of politicians had predicted, that economic reforms would initially “make things worse before making them better” (Przeworski, 1991; 1993). Yet reform losers could still be forgiven for becoming increasingly disaffected with reforms, given that even the prior expectations of economic experts turned out to have been overly optimistic. As one World Bank economist acknowledged, “nobody expected such massive drops in outputs and incomes.”³

Combined with cuts in social expenditures and in subsidies for basic goods, these transitional costs hit citizens who had been accustomed to extensive social protection. This made for a potentially explosive cocktail. As Greskovits (1998) and others have shown, in the decades preceding the post-communist transitions in Europe, socially costly reforms in Latin America and the developing world were frequently accompanied by large-scale disruption in the form of prolonged strikes, riots, looting, violence, and casualties. Between 1976 and 1989, altogether 85 mass waves of austerity protests occurred in 26 countries across Latin America, Asia and Africa.⁴ According to Walton, in this period “half the countries of Latin America had experienced a singular and unprecedented wave of social unrest in response to domestic policies of their governments for dealing with a redoubling of foreign debt.”⁵ Among the countries that experienced austerity riots were some where democratic reforms and market reforms were undertaken simultaneously, such as in Argentina, Brazil, Ecuador, Mexico and Nicaragua. In most instances, the protesters demanded measures to soften the hardship inflicted by austerity policies, through lower prices, restored subsidies, compensatory wage increases, and more or better-protected jobs.⁶

On many occasions, reform protests turned violent in the extreme. Between 1976 and 1984, at least seven protests against basic commodity

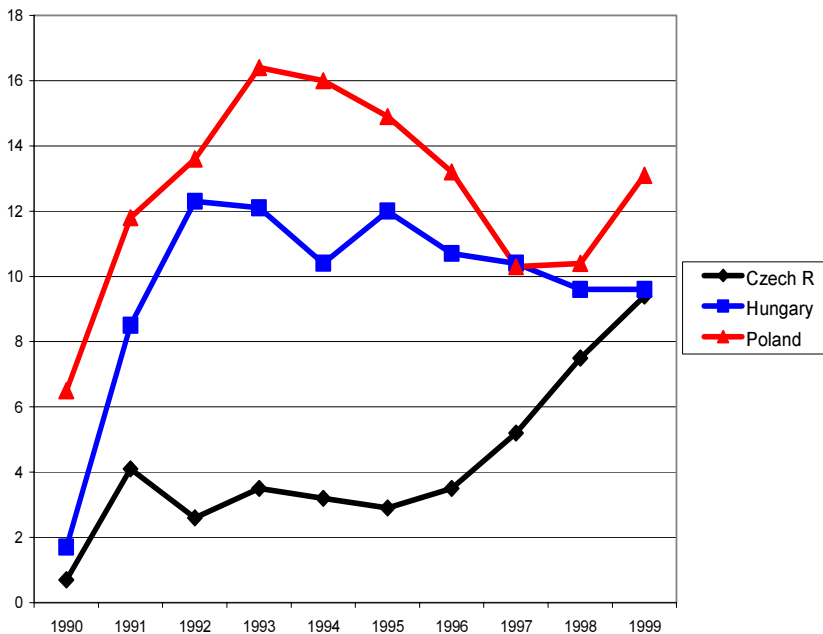
price hikes resulted in more than thirty casualties, and at least forty protests in up to ten casualties (Bienen and Gersovitz, 1986, 29–36, 44). The latter cases included both relatively stable democracies (such as Costa Rica and Venezuela) and democratizing countries (such as Mexico). In later years as well, some of the bloodiest riots occurred in democracies, often with the effect of weakening the regime. In the Dominican Republic, strikes and riots in 1987 resulted in hundreds of wounded people, an estimated 5,000 arrests in 17 cities, and nearly 100 deaths. In Venezuela, five days of rioting in 1989 resulted in over 2,000 wounded, as many jailed, and an (official) death toll of 300. In Argentina, the days before the succession of Raúl Alfonsín by Carlos Menem saw a week of rioting and looting, firing by riot police, at least 80 people wounded, thousands arrested, and 16 dead.⁷

Against the backdrop of these contentious reform experiences in prior decades, a small battery of “breakdown prophets” (Greskovits, 1997; 1998) drew up similar scenarios for Central and Eastern European democracies in the early 1990s. All post-communist governments faced the challenge of simultaneously consolidating democracy and implementing costly market reforms. This challenge was magnified, for many, by the incompatible time-scales and otherwise conflicting requirements of such a “necessary but impossible” dual task (Elster, 1990; Dahrendorf, 1990). Warning that the consolidation of a functioning democratic order was only one possible outcome, Ekiert (1991, 287–288) specified three alternative scenarios: the return to a one-party state, political anarchy and prolonged instability, and a new non-democratic regime. Bresser Pereira et al. (1993, 199) noted that “whenever democratic governments followed neo-liberal tenets, the outcome has been stagnation, increased poverty, political discontent and the debilitation of democracy.”⁸ John Gray deemed the transitional costs to be “so great that it is foolish to suppose that the transition can be conducted under liberal democratic institutions.”⁹

Beyond this pessimism informed by past reform experiences, there were further reasons for expecting that rising unemployment, in particular, would spark intense reactions. A cumulative body of evidence spanning sociology and social psychology¹⁰, political science¹¹, and economics¹² indicates that unemployment produces singularly strong reductions along multiple dimensions of well-being. Reviewing the literature in social psychology, Argyle (1993, 264) concludes that among unemployed people, “depression increases and becomes worse with time; [...] at-

tempted suicide is 8 times more common, especially during the first months. In several studies, it was possible to demonstrate that unemployment caused mental illness rather than vice versa.” The unemployed report consistently higher psychological distress scores, and lower life satisfaction scores, than the employed.¹³ For example, across eleven West European countries, life satisfaction scores of the unemployed were lower by between 19 and 37 percent than those of employed persons.¹⁴ During communist rule, unemployment was officially non-existent. But as figure 2.1 shows, despite the drops in real wages after 1989, unemployment levels quickly shot up to high levels in Poland and Hungary, though not in the Czech Republic.¹⁵

Figure 2.1. Unemployment rate in Hungary, Poland and the Czech Republic, 1990–1999 (in percent)



Note: Annual registered unemployment rates (December of each year) from Employment office records.

Source: retrieved from ILO website at <http://laborsta.ilo.org/cgi-bin/brokerv8.exe#455>

Given the sudden and widespread nature of unemployment in Hungary and Poland, the fear and distress produced by it could be expected to be high—even disproportionately so. Early-transition democracies differed from advanced industrial democracies in that they were newly confronted both with the shocking *emergence* of massive (official) unemployment for the first time in four decades, and with its rapid *rise* thereafter. These conditions approximated those under which prospect theory's well-documented strong loss aversion tends to kick in.¹⁶ State-guaranteed jobs during communism may also have fostered a baseline expectation that the state should guarantee employment. In 1989, 74 percent of Polish respondents thought that it was the government's duty to secure new jobs to all those discharged.¹⁷ In 1993, 84 percent of Hungarian survey respondents still believed that the state should be "mainly responsible for employment," while 47 percent agreed that unemployment was "unacceptable" and only 8 percent agreed that it was "necessary" (Miller et al., 1998, 114–117). In 1992, the share of respondents who strongly favored government intervention "to provide jobs for all" was much higher in Hungary (52 percent), Poland (50 percent) and Czechoslovakia (36 percent) than in countries such as Sweden, West Germany, Great Britain and the US (respectively 26, 22, 21 and 17 percent).¹⁸

Recent memories of communist welfare provision also raised the salience of post-communist unemployment.¹⁹ Under communism, incomes were relatively secure and welfare services relatively developed. Workers enjoyed an extraordinary degree of job security by Western standards, including strong legal protection against dismissal. Many other social services and benefits were provided directly at the workplace, free or at low cost, albeit often on a discretionary basis.²⁰ With few exceptions, these benefits were conditional on formal employment in a state job. Absent an immediate expansion of welfare provision in post-communist transition, threatened workers were therefore confronted with unknown phenomena that endangered both their jobs and other important sources of material security. This was reflected in the very meaning of "good jobs." When asked whether a good job "is one that is secure even if it does not pay very much" or whether it "pays good money, even if it risks unemployment," 48 percent of Czech respondents, 67 percent of Poles and 76 percent of Hungarians chose the former statement as closest to their personal view (Rose and Makkai, 1993, 10–11).

Not surprisingly therefore, unemployment has had strong effects on the wellbeing of post-communist citizens. In the Czech Republic, Slova-

kia and Bulgaria, the unemployed recorded higher psychological distress levels than the employed, and similar to or higher distress levels than the unemployed in Britain. The *employed* in post-communist countries also recorded higher distress levels than those in Britain.²¹ This possibly reflected the higher levels of labor market insecurity and of individual-specific uncertainty—a classic barrier for efficient reforms (Fernandez and Rodrik, 1991). More striking still, the *fear* of unemployment among post-communist workers often reached astonishing levels. Between May and June 1991, more than half of all low income earners, more than a third of all middle income earners, and 17 percent of high income earners in Hungary reported to be concerned about becoming unemployed in the near future. One year later, the proportions of scared respondents had gone up to respectively 60, 50, and 33 percent. The fear of unemployment was generally greater than the fear of inflation, especially among the low-income category. Yet in reality aggregate unemployment stood at 8.5 percent in 1991 and at 12 percent in 1992.²²

Unemployment tends to lead voters to adopt straightforward anti-incumbency attitudes.²³ This was evident, for instance, during deep economic reforms in the early 1990s in Peru (Stokes, 2001a), Mexico (Buen-dia Laredo, 2001), Argentina (Echegaray and Elordi, 2001), East Germany (Anderson and Tverdova, 2001) and Poland (Przeworski, 2001). Real wage decline and soaring inflation led voters in four of these cases to adopt sophisticated attitudes. They were willing to make inter-temporal trade-offs and to uphold or increase support for reforming governments. But rising unemployment levels led voters in all five cases unambiguously to turn against governments.²⁴ During the radical reforms introduced by Finance Minister Leszek Balcerowicz in January 1990, many Poles were willing to accept that continued reforms were necessary to prevent a further fall in real wages and to control inflation, and that unemployment indicated that reforms were working. But as Przeworski (1993, 165) concluded, “Fear of unemployment overwhelms the effects of all other economic variables combined, and it makes people turn against the reform program.” In February 1990, only 0.8 percent of the Polish labor force was registered as unemployed. But two-thirds of respondents thought they were in great or very great danger of losing their job.²⁵ The proportion of Poles who found the very notion of unemployment “despicable” rose to over three in four, while those deeming unemployment “necessary” declined strongly. And among those threatened with unemployment, 65 percent responded that they were willing to strike

in defense of their jobs both in April and November 1990 (Przeworski, 1993, 181). So how was the high salience of the transitional costs expressed in the political arena?

2.2. Muted protests: Post-communist Europe in comparative perspective²⁶

Yearly summary reports from National Police Force archives indicate that in Hungary, the early 1990s were remarkably peaceful.²⁷ For instance, the year 1989 did not involve a single strike lasting longer than a day. The three most frequent protest repertoires in 1990 were peaceful and legal: 40 percent demonstrations, 21 percent open letters and public statements, and 10 percent strikes (N=126). In 1991, the majority of events were distinctly non-disruptive (N=188). The most frequent repertoires were open letters (46 percent), demonstrations (34 percent), and signature collections (17 percent). Few actions involved the use of force or violence by protesters, such as force against firm management (1), assaults (1), damage (1), land seizure (4), blockades (3), and occupations of public domains, public buildings, and companies (4). Where protest participation could be measured, the number of participants was below 20 in 28 percent of cases, and between 20 and 200 in a further 24 percent. Of all protest events in 1992, over 60 percent did not even involve collective action in the sense of a number of people getting together physically (N=110). In 1993, over 80 percent of all protest actions were legal, and the two most frequent repertoires were again open letters and statements, and the collection of signatures (N=150). And in 1994, the year of the second post-communist general election, there was not a single unlawful protest event. In contrast to the deaths frequently counted in Latin American reform protests, the early 1990s saw just one protest casualty in Poland (Ekiert and Kubik, 1999, 127), while none were reported in Hungary and the Czech Republic.

Press-based data established by Gregorz Ekiert and Jan Kubik further corroborate the impression of relatively muted protests.²⁸ They allow an assessment of the relative importance of violence between 1989 and 1993, defined to include attacks on property, the use of force against officials, assassinations, and accidental death resulting from protest activities, street confrontations and riots. As Ekiert and Kubik show, violent protests have been a marginal phenomenon. Between 1989 and 1993, they

represented on average 8 percent of all protest events in Poland, and 3 percent in Hungary. In the latter country, the share of violent actions was even in the range of zero to two percent of all protest events in all years except 1990. By contrast, the share of open letters and statements, that most peaceful of repertoires, was on average 14 percent in Poland and 40 percent in Hungary in this period (Ekiert and Kubik, 1998b, 558). The same picture emerges when one looks at the reactions of the authorities. On average, the authorities intervened in only 4 (Hungary) and 10 (Poland) percent of protest actions, and they used force in respectively 2 and 6 percent of cases.²⁹ Clearly, this was far below the scale of earlier Third World austerity riots. For instance, in Brazil, the share of urban protest events that were repressed by the police was lower in the last years of authoritarian rule (29 and 16 percent in 1983 and 1984) than in the first years of democracy, when it rose from 6 to 24 and 57 percent between 1985, 1988, and 1990 (Sandoval, 1998, 191).

Yet disgruntled reform losers might still cause political turmoil by disruptive actions short of outright violence. Below I therefore analyze a more frequent form of disruption in democratic polities: industrial actions by means of strikes and lockouts.³⁰ I discuss evidence from six Central and Eastern European countries in the period 1990–1995: Hungary and Poland, as well as the Czech and Slovak Republics, Romania, and Belarus. I also look at six advanced Western welfare states belonging to the social democratic regime (Sweden and Denmark), the conservative regime (Germany and France) and the liberal regime (the UK and the US) and four Latin American democracies in the 1980s: Peru, Brazil, Colombia and Venezuela.³¹ Each of the latter four countries approximates a different combination of two variables: the extent of democratic consolidation, and the austerity of economic policies.³²

Indicators of industrial action have been adjusted for the size of each country's population aged 15–64. This measure differs from one commonly used in the studies and statistics of industrial action in Western countries³³ and which has been adopted in the emerging literature on post-communist countries³⁴, namely indicators of industrial action (e.g. the number of workers involved) as adjusted by the size of the (non-agricultural) *labor force or wage earners*. For many purposes relevant for our analysis, the latter indicator is potentially problematic. While perhaps adequate for relatively stable economies, this indicator is less helpful in contexts of rapid industrial transformation such as the post-communist transition, where the labor force has undergone significant changes in size

as part of ongoing industrial reforms. A related reason is that the above indicator might mask or distort critical changes in labor force size due to government policies—that is, due to political rather than labor market causes. Suppose that a government, upon taking office, decides that it has a strong interest in manipulating the size of the labor force. It can then devise a number of policies to bring about such a change in the short run. For instance, ostensibly in order to create a better skilled labor force, governments might increase higher education scholarships, reduce university tuition fees or raise the obligatory number of years of schooling. Ostensibly in order to reward workers who approach retirement age for their career efforts, governments might grant them generous financial and eligibility conditions for retiring early. In both cases, the end result will be that specific categories of working-age individuals have been taken out or kept out of the labor force.

Standard indicators that show a particular dimension of industrial action (such as strikes, or days, or participants) as divided by the size of the labor force would then be in danger of conveying a misleading picture of disruption in the polity. For one thing, such indicators would be high, not necessarily because protest by workers was high (the numerator), but because the labor force was purposefully reduced by governments (the denominator). For another, they would also skip over potential theoretical explanations for such policies. As I argue in chapters 4 and 5 below, the underlying motivation for targeting certain groups of workers might be to prevent them from striking against adverse labor market conditions. Given low labor demand, retaining younger people in education might preempt their voicing their discontent because of unemployment or precarious employment. Given high unionization rates, pushing well-connected elderly workers out of the labor force by means of “golden handshakes” can preempt their organizing for industrial action. If this is the case, a given rate of, say, strikes per 1000 workers would not just be artificially manipulated. It would also mask the fact that the level of industrial action observed in the polity has probably been lower than it would have been in the counterfactual *absence* of policies aimed at moving contentious or disruptive workers out of the labor force. Analyzing the number and the participation and duration features of industrial actions as divided by the number of persons aged 15–64 avoids the first danger.³⁵ The size of the working-age population, unlike that of the labor force, is considerably less amenable to government manipulation in the short run. Moreover, if accompanied by an analysis of changes in labor

force size and in unemployment levels and of the specific categories of working-age individuals behind those changes, it might pinpoint rather than obscure important causal factors behind industrial action.³⁶

As a first rough indicator of industrial disruption differently standardized, I have therefore computed a variant of the “strike rate” often used in analyses of industrial action, viz. the yearly number of strikes and lockouts as divided by the size of the population aged 15–64 in 1994 (in tens of millions). In Poland, this strike rate has been high in the year 1993, when the Solidarity trade union led a short-lived resurgence of strikes (Ost, 2001, 96; 2005). However, between 1990 and 1995, the strike rates of post-communist countries such as Belarus (18), Romania (17), Hungary (7), the Czech Republic (3) and Slovakia (1) were all systematically lower, by a large margin, than those of Denmark (610), France (380), Sweden (84) and the UK (58).³⁷ In Latin America in the 1980s, the same strike rate stood at 120 in Brazil, 160 in Colombia, 240 in Venezuela and 360 in Peru.³⁸ These, too, are higher rates than anywhere in post-communist Europe. Counting the mere incidence of strikes and lockouts, however, may conceal important qualitative information, for instance about average duration and participation levels. Moreover, the political significance of industrial collective actions is likely to be a positive function of the amount of disruption caused by all such actions taken together in the polity. Table 2.1 presents one way of gauging this. It shows the total number of workers involved in strikes and lockouts in any given year in each country, as adjusted for the size of the country’s working-age population.

Per thousand working-age Poles, eleven persons yearly participated in industrial action between 1990 and 1995. Hungary experienced very low rates of participation until they pushed up in 1995, when the government imposed an austere economic adjustment program.³⁹ But even when 1995 is included, the average yearly rate of Hungarians involved in strikes and lockouts is still only 7. And in other post-communist countries, still fewer workers were involved in strikes and lockouts. This picture of apparent quiescence is strengthened when the East is compared with the West or the South. Post-communist strike participation has been neither dramatically nor consistently higher than in the advanced Western welfare regimes. Yet the latter (including Sweden, which experienced a recession in the early 1990s) suffered much less economic hardship in this period. With the exception of the US and France, Western rates of worker participation in strikes and lockouts are within the Eastern range. Both ex-

ceptions, moreover, might be only an artifact of data limitations.⁴⁰ In Latin America during the 1980s, the same indicator of worker participation was comparable in the case of Colombia (1) and Venezuela (9), but surpassed the post-communist rates many times over in the case of Peru (33) and Brazil (93).⁴¹

Table 2.1. Workers involved in strikes and lockouts, per thousand persons aged 15–64, in selected post-communist, conservative, social democratic and liberal countries, 1990–1995

<i>Regime Type</i>	<i>Country</i>	<i>1990</i>	<i>1991</i>	<i>1992</i>	<i>1993</i>	<i>1994</i>	<i>1995</i>	<i>Mean</i>
<i>Post-Communist</i>	Poland	5	9	30	15	8	1	11
	Hungary	n.a.	3	0	4	5	25	7
	Czech R	n.a.	1	3	0	10	0	3
	Belarus	2	9	0	0	0	0	2
	Romania	n.a.	n.a.	0	2	5	3	2
	Slovakia	n.a.	5	0	0	0	0	1
<i>Conservative</i>	W. Germany	6	5	14	n.a.	n.a.	n.a.	8
	France	1	1	0	1	n.a.	n.a.	1
<i>Social</i>	Denmark	9	10	8	15	9	31	14
<i>Democratic</i>	Sweden	12	1	3	5	4	21	8
<i>Liberal</i>	UK	8	5	4	3	5	11	6
	US	1	2	2	1	2	1	2

Notes: For each country, the yearly number of workers involved in strikes and lockouts (in thousands) was divided by the size of the population aged 15–64 in 1994 (in millions). Data for Hungary, France, Denmark Sweden (from 1994), UK, US: see n.37. Data for Germany exclude public administration stoppages and include stoppages lasting less than one day if more than 100 workdays were not worked. Source: Computed from ILO (1997, 251–52, table 4.2) and World Bank (1996, 194–195, table 4).

A second way of gauging the scale of industrial disruption in the polity is by looking at the adjusted number of workdays lost as a result of strikes and lockouts. This indicator is conceptually distinct from the number of workers involved, and can be linked to it in different ways. For instance, the same number of workdays lost in any given year could result from either a few short strikes involving massive numbers of workers, a few strikes of long duration involving a hard core of die-hards, or many strikes of moderate duration and with moderate participation.

Table 2.2. Workdays not worked as a result of strikes and lockouts, per thousand persons aged 15–64, in selected post-communist, conservative, social democratic and liberal countries, 1990–1995

<i>Regime Type</i>	<i>Country</i>	<i>1990</i>	<i>1991</i>	<i>1992</i>	<i>1993</i>	<i>1994</i>	<i>1995</i>	<i>Mean</i>
<i>Post-Communist</i>	Poland	6	21	94	23	23	2	28
	Romania	n.a.	n.a.	1	6	24	14	11
	Belarus	4	40	13	0	1	0	10
	Slovakia	n.a.	42	4	0	5	0	10
	Hungary	n.a.	1	1	1	4	37	9
	Czech R	n.a.	0	3	0	0	0	1
<i>Conservative</i>	W. Germany	8	4	35	n.a.	n.a.	n.a.	16
	France	14	13	9	13	14	n.a.	13
<i>Social</i>	Sweden	128	4	5	32	9	105	47
<i>Democratic</i>	Denmark	25	18	16	29	19	49	26
<i>Liberal</i>	US	35	27	23	23	29	34	29
	UK	50	20	14	17	7	11	20

Notes: For each country, the yearly number of workdays not worked as a result of strikes and lockouts (in thousands) was divided by the size of the population aged 15–64 in 1994 (in millions). Data for Hungary, France, Denmark, Sweden (from 1994), UK, US: see n.37. Data for Germany exclude public administration stoppages and include stoppages lasting less than one day if more than 100 workdays were not worked.

Source: Computed from ILO (1997, 253–54, table 4.3) and World Bank (1996, 194–195, table 4).

Poland had a higher mean of workdays lost than of workers involved, although it was more contentious than Hungary on both counts. Noteworthy in Hungary was the virtual absence, on both indicators, of industrial disruption in the socially costly years 1991 to 1993. In terms of seconds of strikes per employee, Hungary actually recorded the best statistics in the whole of Europe between 1990 and 1993—except for the Vatican. Of all strikes with known duration, nearly three-quarters lasted 9 hours or less and three-fifths two hours or less, whereas only one in sixteen lasted 80 hours or more.⁴² The broad picture of table 2.2, however, is very similar to that of table 2.1 (see also Crowley, 2004). In five out of the six post-communist countries, the mean rate of workdays lost in industrial action remains below that in all six Western countries. The Polish rates are comparable to three Western countries (Denmark, the UK and the US), and remain below that in another (Sweden). Again, many more workdays were lost in 1980s Latin America. On average 39 workdays were lost per thousand working-age adults in Venezuela, compared to 144 in Brazil, and 184 in Peru.⁴³

The present analysis throws new light on post-communist protests. It also casts doubt on a core claim made by an influential earlier study of Poland. Ekiert and Kubik's *Rebellious Civil Society* (1999) asserts that Polish protests were "exceptional" in magnitude and intensity, painting a picture of "sweeping," "widespread" and "massive" protest campaigns "throughout the country." These are unlikely to be accurate characterizations of Polish protest politics in the early 1990s.⁴⁴ Ekiert and Kubik (1999, 109) further claim that "every group of society was involved in the protests that engulfed the whole country." But table 2.1 indicates that in 1990 and 1991 less than one percent of all working-age Poles participated in strikes and lockouts, and still only three percent in 1992.⁴⁵ Such figures simply do not warrant a portrayal of widespread contention in the polity. In fact, the magnitude of protests during the transition to democracy was even small compared to previous episodes of workers' resistance under communism. The Solidarity protests of 1980–1981, for instance, were "much greater and much more debilitating than anything that occurred in 1989–1993" (Kramer, 2002a, 218). Post-communist strike levels were muted rather than massive—even in Poland.

2.3. Conclusions

During early post-communist transition, the new context of enlarged political freedoms and low levels of institutionalization offered precisely the increasing opportunities identified as having been conducive, elsewhere, to the emergence of more violent and disruptive repertoires of protest (Tarrow, 1989; Tilly, 2003) and to a higher incidence of strikes, demonstrations and riots (Przeworski et al., 2000). Previous reform experiences in Latin America and the developing world and the shock emergence of high unemployment levels further fed the early fears of seasoned experts that explosions of protests were more than likely in Central and Eastern Europe after 1989. And yet, the post-communist transitions have turned out to be surprisingly peaceful on a number of dimensions. In Greskovits's (1997; 1998) apt and early phrase, notwithstanding many breakdown prophecies, these have been crisis-proof democracies. This chapter has shown that Central and East European polities have been more peaceful in terms of labor disputes than Latin American countries in the 1980s and even than many stable Western democracies in the 1990s. While confirming that Poland was the most contentious of the post-

communist polities, the Polish case was nowhere near as dramatic as is often portrayed. Indeed, by far the most striking impression emerging is that the countries in the entire region have generally been comparatively low on political protests, whether these emanated from civil society (Howard, 2003) or from organized labor (Crowley, 2004). To paraphrase Przeworski: the East, if anything, has become the West. The unexpected quiescence of post-communist transitions thus constitutes a genuine puzzle in need of explanation. This will be the task of the following chapters.

NOTES

- 1 See Kornai (1994; 2000), Mundell (1997), King and Széleányi (2005).
- 2 Income data are from UNICEF (1995, 138), wage data from UNICEF (1999, 141). In the words of Jan Winiecki, one-time director of the European Bank for Reconstruction and Development, the transformation came “at high cost, often with long lags, and not without question” (quoted from Rose et al., 1998, 67). On transitional costs, see Adam (1999).
- 3 Milanovic (1993, 8). For instance, prior projections of annual GDP growth for 1991 made by governments, often in common agreement with the IMF and the World Bank, stood at respectively +3, −3 and −5 percent for Poland, Hungary and Czechoslovakia. Yet actual growth rates turned out to be respectively −8, −8 and −16 percent (Milanovic, 1995, 11; see also Milanovic, 1994; Barr, 1994a, 87; Rosati, 1994, table 7.3).
- 4 Walton and Ragin (1990, 877). Austerity protests are defined as “large-scale collective actions including political demonstrations, general strikes, and riots, which are animated by grievances over state policies of economic liberalization, implemented in response to the debt crisis and market reforms urged by international agencies” (Walton and Seddon, 1994, 39).
- 5 Quoted in Greskovits (1998, 195). To name just a few countries, in 1976–1992 there were riots against IMF-induced austerity programs in the Dominican Republic in 1984, 1985 and 1987 (3 cases), in Ecuador in 1982, 1983, 1985 and 1987 (5), in Venezuela in 1989 (7), in Brazil in 1983, 1985, 1986 and 1987 (11), in Argentina for each year between 1982 and 1985, and again in 1989 (11), in Bolivia in every year between 1983 and 1987 (13), and in Peru in almost every year between 1976 and 1985 (14) (Greskovits, 1998, 193; Walton and Seddon, 1994, 39–40).
- 6 Nelson (1993), Walton and Seddon (1994).
- 7 Walton and Seddon (1994, 110). Since 2001, some of these countries have seen a flare-up of violence. In April 2002, President Chavez of Venezuela was temporarily forced to resign by the army after his supporters had shot randomly at crowds demonstrating in the streets of Caracas against his rule, killing 11 people. This resignation interrupted four decades of continuous democratic government. In Argentina, a new round of debt-induced austerity policies in December 2001 against a backdrop of rising unemployment, led to attacks on politicians’ homes, the successive resignation of four presidents, wide-

spread rioting nationwide, several dozens of injuries and at least 27 casualties (*International Herald Tribune*, 14 April 2002, 1; 20 January 2002, 1).

- 8 Haggard and Kaufman (1995, 328) similarly observed that “even though economic deterioration has not yet lead to widespread authoritarian reversals, [...] it has seriously jeopardized prospects for democratic consolidation. It does so in part by causing increased social violence and in part by creating the raw material for polarizing populist and anti-democratic movements.” See also Haggard and Kaufman (1992, 350) and Walton and Seddon (1994, 327). Others warned against the likely “escalation and intensification of collective protest,” and about “outbursts of anomic movements, strikes and mass manifestations” that “can sweep away the whole politics” (Grzegorz Ekiert and Attila Agh, quoted in Greskovits, 1998, 3).
- 9 Quoted in Ekiert and Kubik (1998, 548).
- 10 See Jahoda (1982), Kelvin and Jarret (1985), Argyle (1993), Gallie (1994; 2002), Gallie et al. (2001), and the contributions to Fryer and Ullah (1987), Gallie et al. (1994) and Gallie and Paugam (2000).
- 11 See Lane (1991; 1998), Anderson (2001), Baxandall (2001), and Elster (1986, 1988).
- 12 See Clark and Oswald (1994), Solow (1995), Oswald (1997), Winkelmann and Winkelmann (1998), and Di Tella et al. (2001).
- 13 On psychological distress, see Clark and Oswald (1994), Gallie (1994), Oswald (1997) and Gallie et al. (2001). On life satisfaction, see Winkelmann and Winkelmann (1998) and Whelan and McGinnity (2000). Investigating over 25,000 citizens across twelve European nations, Anderson (2001) finds that, compared to employed citizens, the unemployed recorded significantly lower levels of life satisfaction and of democracy satisfaction in all twelve cases.
- 14 Computed from Whelan and McGinnity (2000, 292, table 24.1). Similarly, employed West German working-age men recorded an average life satisfaction score 9 percent higher than that of those not in the labor force (such as pensioners and housewives), and 31 percent higher than that of the unemployed (computed from Winkelmann and Winkelmann 1998, 5).
- 15 On the causes of transitional unemployment, see Boeri (1994; 1997a;b); Boeri et al. (1998), Kornai (1994).
- 16 As Daniel Kahneman, Amos Tversky, and collaborators have shown, psychological wellbeing is affected especially by changes with respect to a prior reference level, with losses being more highly valued than equivalent gains (Tversky and Kahneman, 1981; 1987; Quattrone and Tversky, 1988; Kahneman and Tversky, 2000; Mercer, 2005). The rapidly rising unemployment levels in the post-communist democracies may therefore have been more salient than in countries with similar but stable levels of unemployment.
- 17 Kolarska-Bobinska (1991, 181). In October 1988 one quarter of Polish respondents considered it likely that they would lose their jobs, and one half of respondents thought so in 1990.
- 18 Blanchflower and Freeman (1997, 456). Moreover, the high individual-level uncertainty of many workers about their own future labor market status was likely to be a powerful inhibitor of political support for post-communist reforms—even despite widespread acceptance that reforms were likely to enhance aggregate welfare (Fernandez and Rodrik, 1992). For instance, income stability, in both directions, was much lower in reforming Hungary than in West Germany during the early 1990s (Habich and Spéder, 1998, 13).

- 19 There is an extensive literature on communist welfare. See Szalai (1991), Ferge (1992), Kornai (1992a,b; 1996), Przeworski (1993; 2001), Barr (1994b,c; 2005), Sipos (1994), Estrin (1994), Krumm et al. (1994), Jackman and Rutkowski (1994), Róna-Tas (1997), Adam (1999), Baxandall (2004).
- 20 These non-wage benefits included kindergarten facilities, child subsidies, maternity leave, housing, vacation homes, health services, and sometimes rationed foodstuffs and other scarce goods. In Kornai's (1992a, 225) words, communist states aimed "to narrow down individual consumption of products and services bought directly by households for money, and concurrently to increase the share of collective consumption distributed in kind by the bureaucracy."
- 21 Gallie et al. (2001, 50). These scores are from the General Health Questionnaire, which scores answers on concentration ability, loss of sleep, and general feelings of happiness, strain and depression (Clark and Oswald, 1994, 649–650).
- 22 Choguill and Manchin (1994, 79–80). For similar evidence, see Lengyel (1999) and Gimpelson (2001).
- 23 Analyzing 99 democratic regimes and 123 dictatorships in 135 countries between 1950 and 1990, Cheibub and Przeworski (1999, 227) find that the survival of heads of government is statistically independent of a number of economic variables such as (change in) inflation and (growth of) per capita income and per capita consumption. The only economic variable that seems to matter for incumbents' survival is a proxy for employment in parliamentary and mixed democracies. Analyzing data on close to 300,000 citizens in the US and in 12 West European countries, Di Tella et al. (2001, 340) find that citizens would be willing to trade off an estimated 1-percentage point increase in the unemployment rate for an estimated 1.7 percentage point increase in the inflation rate.
- 24 Reflecting on these five cases, Stokes (2001b, 26) therefore concludes that "apparently, unemployment is such a catastrophic event that when people think the probability of losing their job is high, they interpret this unambiguously as bad news and hold the government responsible." See also Przeworski (2001, 123, 125), Vanhuyse (2003) for a review, and Bell (1997) and Fidrmuc (1999) for further evidence on the electoral importance of unemployment.
- 25 Przeworski (1993, 166). The relationship was straightforward. Those who feared losing their job recorded lower support for the Balcerowicz reforms. As Przeworski concludes, losing jobs was simply "a price they [were] not willing to pay" (Przeworski, 1993, 166; 2001, 124–125).
- 26 An earlier version of the sections below was published as part of Vanhuyse, Pieter (2004), "East European Protest Politics in Early 1990s: Comparative Trends and Preliminary Theories," *Europe-Asia Studies*, 56(3), 421–438. See also <http://tandf.co.uk>.
- 27 I thank Máté Szabó for making these summary reports available. They were drawn up by, Virág (1996), Kovács (1996), Mezei (1996), Füzér (1996), A. Szabó (1996), Péchy (1996) and M. Szabó (1996).
- 28 Ekiert and Kubik (1998a, 1998b, 1999) and Kubik (1998) instructed teams of local researchers to code protest events as reported in a number of daily and weekly national newspapers according to uniform definitions and methodology. While their database is without doubt one of the most detailed and informative sources of knowledge on post-communist protest events to date, it has to be borne in mind that this is a relative virtue due to the lack of better data (on the quality of strike data, see Shalev, 1978). Ekiert and

Kubik (1999) acknowledge that protest event analysis based on press sources is not without pitfalls. For instance, they point out that the high and variable amount of missing data prevented them from doing rigorous statistical analysis (p. 17). For a critique, see Kramer (2002a, 2002b), and the reply by Ekiert and Kubik (2002). Kramer mentions, for instance, that the Ekiert/Kubik data base is based on a relatively small number of newspaper sources, which, at least in the case of Poland, were all published in the capital, Warsaw.

- 29 Data for 1994 have not been included because they were unavailable for Poland, and covered less than half a year (until May) for Hungary. The notion of protest event was defined to cover all types of institutionalized and unconventional collective public action. To be included, an action had to be (a) reported in at least one newspaper, (b) undertaken by at least three people or be extreme (e.g. self-immolation, terror, hunger strike), and (c) articulate specific demands in a non-routine way. Between 1989 and 1993, a total number of 1,476 protest events were recorded in Poland and 699 in Hungary (Ekiert and Kubik, 1999, 13–18). Sources: Kubik (1998, 140, 143, table 6.4, 145, table 6.6).
- 30 I present aggregate-level indicators computed from ILO data. While these necessitate a measure of caution due to cross-country differences in definitions and standards, they allow useful insights into the incidence and duration and participation features of industrial disruption. As with the press-based data discussed above, the relative virtue of these ILO data is also due largely to lack of better-quality data (Shalev, 1978). Since the ILO strike data come from several sources (including strike notices, newspaper reports, and direct inquiries addressed to employers' or workers' organizations), definitions are not perfectly comparable across countries. Data on strikes and lockouts are covered together because most countries do not distinguish between these two actions (ILO, 1997, 273).
- 31 Of course, the particular model of democracy also matters in explaining the extent of social conflicts. During the 1980s Colombia and Venezuela were two-party systems based on cross-class and nationally organized parties that often colluded in "quasi-democratic alliances." This gave executives a high degree of autonomy from particular interest groups and from national parliaments and may help to explain the fiscally conservative, non-populist policies pursued in the 1980s. In Colombia, trade unions operated outside this party framework, which might help to explain the occasional eruptions of left-wing urban and rural protests. In Venezuela, one of the two leading parties, the Acción Democrática, had direct control over the main trade union, the Venezuelan Workers Confederation, which represented around 80 percent of the workforce (Haggard and Kaufman, 1992, 285–287).
- 32 Peru and Brazil were still going through democratic consolidation in the 1980s, having experienced their transition respectively in 1980 and in 1985. Peru's first two democratic governments, led by Bellaúnde (1981–1985) and García (1986–1990), implemented populist policies including urban real wage increases and rapid monetary and fiscal expansion. Brazil's first two democratic governments were respectively populist (led by Sarney, 1986–1989) and austerity reform-based (led by Collor, 1990–1992). By contrast, Colombia and Venezuela had already enjoyed longer periods of democratic rule by the 1980s. Venezuela underwent a debt crisis in February 1983, which led to an austerity program without fiscal reforms. After taking office in 1984, president Lusinchi undertook stabilization plans that included subsidy cuts and investment reductions. In 1989, with GDP growth and inflation rates running at respectively –7.8 and 81 percent, the new

- president Pérez assumed office with a neo-liberal package. Colombia experienced good macro-economic indicators and underwent no austere structural reforms. During 1980–1984, annual average GDP growth in Venezuela stood at –2.4 percent and annual average inflation at 13 percent. During 1985–1988, annual average GDP growth stood at 4 percent, and annual inflation at 22 percent. Colombia experienced only a short populist episode, under Belacur from 1982 until 1984. See Przeworski (1991, 184), Haggard and Kaufman (1992, 285–286; 1995, 175), and Bresser Pereira (1993, 20, 37–48).
- 33 E.g. Pampel and Williamson (1989), Sherman Grant and Wallace (1991), Gobeyn (1993), O’Connell (1994), Sandoval (1998).
 - 34 E.g. Ekiert and Kubik (1998a, 96; 1999, 118). Kubik (1998) and Seleny (1999) in turn use industrial action as standardized by the size of the *entire* population, which includes subgroups with near-zero levels of industrial action such as children and the elderly.
 - 35 These are not merely hypothetical caveats. ILO data (2000, 30–42, table 2) show that between 1990 and 1997, labor force participation rates dropped substantially for both working-age men and women in Hungary, Poland, and Slovakia. None of the six Western countries experienced similar reductions in the participation rates of both genders, although large changes occurred for men in Sweden and women in the US and West Germany. A number of countries have also seen drastic reductions in labor force participation of specific groups, such as elderly men in Germany and young people in France and Sweden. In some of these cases, government policies may have been directly responsible. And in all cases, these changes would be masked or distorted by traditional measures of industrial action that standardize for the size of the working force.
 - 36 A potential drawback should be noted regarding the present method of standardizing for the size of the working-age population, when compared to standardizing for the number of wage earners. The first method might underestimate industrial action because it includes the unemployed in the denominator. As discussed in Chapter 4, this group is likely to be less able to engage in disruptive protests. It is therefore advisable to combine a discussion of the working-age adjusted measure of industrial action with a discussion of changes in both the size of the labor force and the size of the unemployment pool.
 - 37 Moreover, post-communist strike rates were comparable to that of the US (2), where the data would have been higher but for the exclusion of a potentially large number of strikes and lockouts. Data for Poland were available only for 1993 and 1994. Data for Germany were not available. Strikes and lockouts are defined as “temporary work stoppages willfully effected by one or more groups of workers and temporary closures of one or more places of employment by one or more employers with a view to enforcing or resisting a demand or expressing a grievance” (ILO, 1997, 273). Data for Hungary cover work stoppages in which at least 800 hours were not worked. French data exclude agriculture and public administration. Danish data exclude stoppages in which fewer than 100 workdays were not worked. Swedish data from 1994 cover stoppages in which at least eight hours were not worked. UK data exclude political strikes and include stoppages involving fewer than ten workers or lasting less than one day if more than 100 workdays not worked. US data need to be treated with particular caution: they exclude work stoppages involving fewer than 1000 workers or lasting less than one day. Computed from ILO (1997, 249–250, table 4.1) and World Bank (1996, 194–195, table 4).
 - 38 Computed from ILO (1997, 249–250, table 4.1) and World Bank (1996, 194–195, table 4). These rates are averages of all the available yearly “democratic” data points. Before

- 1985, the protest data were adjusted for the size of the population aged 15–64 in 1980, thereafter for the size of the population aged 15–64 in 1994. Population growth in these Latin American countries was generally much faster than in the Eastern European and Western democracies discussed above. Data on strikes and lockouts for Colombia include public services and illegal stoppages. For Brazil they cover strikes only.
- 39 This program, the Bokros package, was imposed by the Horn government, less than a year after assuming office, unilaterally and by surprise, without prior consultation with trade unions or even majority MPs. Limits were imposed on nominal pay rises in public administration, education and health sectors, and in state-owned firms. Expenditure cuts were implemented to turn a primary budget deficit into a surplus, including the introduction of fees for public education and the abolition of free dental care. As a result, real wages in 1995 fell by 12 percent compared to 7 percent growth in 1994, and household consumption fell by 7 percent compared to zero growth in 1994 (Kornai, 1997, 182, 200–203).
- 40 In 1995, the Juppé government in France was confronted with a number of industrial actions amounting to the largest-scale episode of disruption in years. If the figures for that year had been available, France too might have had an average participation rate comparable to that of Poland and Hungary. This also applies to the US, where work stoppages involving fewer than 1,000 workers or lasting less than a day have not been included in the present data (see notes to table 2.5).
- 41 Computed from ILO (1997, 251–252, table 4.2) and World Bank (1996, 195, table 4). See also footnote 34.
- 42 The first set of data are quoted from Róbert (1999, 101), the second set is computed from Fine (1997, 258, table 1).
- 43 Computed from ILO (1997, 253–254, table 4.3) and World Bank (1996, 194–195, table 4). See also footnote 34. Calculated per 100,000 workers, the number of workdays lost during strikes in Brazil rose from less than 50 in 1984 to over 200 in 1985 (the transition year), 400 in 1987, and over 1000 in 1990. The number of protest events and average participation in urban social movements started rising from respectively 1986 and 1988 (Sandoval, 1998, 187, 191).
- 44 Ekiert and Kubik (1999, 69, 108, 109, 119, 141, 142). For similar such characterizations, see Osa (1998, 30, 33), Seleny (1999, 489–490, 515), Ekiert and Kubik (1998a, 2002), Kubik (1998).
- 45 See also Vanhuyse (2002b), Ost (2005). Kramer (2002a, 218), reviewing the empirical literature on Western Europe, similarly finds that key periods in Western Europe were marked by higher levels of protest than those cited by Ekiert and Kubik for post-communist Poland—indeed “several times higher in some cases, with a far greater incidence of violence.” Kramer (2002a, 218–219) finds that in 1992 only about three percent of the working-age population took part in strikes.

CHAPTER 3

Political Quiescence despite Conditions for Conflict

“In general, organized workers, both public and private, are best positioned to act politically against stabilization and devaluation. ... one would expect the degree of unionization and the likelihood of adopting and sustaining orthodox stabilization and structural adjustment to be inversely correlated.”

Stephen Haggard and Robert Kaufman (1995, 269)

Enjoying the benefit of hindsight, it is often easy to forget the genuine uncertainties experienced by actors at a time when what is history today was still unfolding. Judging by many variables traditionally associated with industrial action, and seen through the lens of 1990, post-communist democracies were actually very likely to experience large-scale protests. Surging national unemployment rates in Hungary and Poland at 8 and 12 percent in 1991, and at 12 and 14 percent in 1992, often masked local-level employment losses in particular regions that were many times more dramatic. So how best to explain the low levels of strikes and disruptive protests in these years? Why did threatened workers remain so quiescent? This chapter critically reviews three sets of possible explanations. The economic theory of strikes posits a negative relationship between unemployment and strikes. Theories based on neo-corporatism and political opportunity structures explain labor quiescence by referring to tripartite bargaining and low levels of union rivalry. And Greskovits's (1998) innovative “informal exit” theory points to the comparatively high levels of social expenditures, education levels, rural density, and population age to explain why citizens engaged in the informal economy rather than voicing their grievances. I indicate why none of these explanations are fully consistent with post-communist protest variation, in part because they underplay the role of state strategies in influencing protests.

3.1. Disruptive protests: The case of threatened workers

It is often claimed that for multi-dimensional market reforms to succeed, interest groups need to display peaceful and inter-temporal attitudes. In Przeworski's (1991, 180) formulation, for reforms to be pursued democratically, distributional conflicts must be institutionalized: "All groups must channel their demands through the democratic institutions and abjure other tactics. [...] They must adopt the institutional calendar as the temporal horizon of their actions, thinking in terms of forthcoming elections, contract negotiations, or at least fiscal years." However, it is important to specify more precisely the conflicts and tactics in question. For instance, it is necessary to distinguish broadly between "disruptive" and "non-disruptive" protest repertoires. In addition to voting, non-disruptive repertoires include negotiations, public statements, letters, petitions, peaceful demonstrations and meetings in public arenas. Far from endangering democratic consolidation, such actions form a distinctive defining element of democracy as compared to other forms of government. As Albert Hirschman (1986b; 1995) has reminded us, peaceful conflict about uncertain distributional outcomes may even be democracy's lifeblood.¹

Disruptive protests, in contrast, include actions in which explicit forms of violence are used (e.g. riots, violent demonstrations, property damage, physical assaults and casualties), in which major roads, industries or buildings are occupied or damaged (e.g. strikes and blockades), and in which the normal course of democracy is disturbed (e.g. obstructions of policy implementation and civil disobedience to police authorities). These three forms of disruption are distinct in important ways.² But from the viewpoint of politicians implementing costly market reforms, they represent similar short-term dangers. Disruptive protests typically aim to stop, slow down or reverse reforms. By disrupting the normal functioning of key sections of economy or polity, they decrease firm profits and domestic output, they scare off foreign investors, and they bypass the democratic institutions set up for handling distributive conflicts.

For workers in declining sectors or with few transferable skills or resources, disruptive and outright violent protest tactics have often been a crucial prerequisite for obtaining collective demands.³ Studying poor people's movements in twentieth-century America, Piven and Cloward (1977, 36–37) argue unequivocally that "whatever influence lower-class

groups occasionally exert in American politics does not result from organization, but from mass protest and the disruptive consequences of protest.” By upsetting the normal functioning of society, disruptive protests forcibly extract the attention not just of employers, but also of the general electorate and of the policy-makers who are periodically accountable to it.⁴ Popular discontent has translated into mass protests especially during periods of rapid social change in which two further conditions were present. First, everyday regulatory controls were destabilized, as when mass unemployment broke up people’s routine ways of living.⁵ Second, people perceived the causes of rapid social changes as mutable and unjust, as when any one particular group’s dislocations were mirrored by similar dislocations elsewhere in the polity. Both conditions were present in post-communist transitions.

Unionized workers have been especially likely to give up their usually quiescent attitudes and to dig in for militant strikes when they perceived their longer-term prospects to be very bleak (Lange, 1984). In Britain, periods of economic recession have generally led to increases in the average duration of strikes, partly as a result of governments’ greater involvement in industrial relations, through wage policies and the financing of nationalized industries and public services.⁶ In Canada, industrial strikes have been most likely to turn violent when organized by lower-skilled workers.⁷ Again, these conditions prevailed in post-communist Europe. Workers in non-competitive industries faced bleak future prospects. Elderly workers were particularly vulnerable, as they were more likely to possess outdated and little-marketable skills. Vocational schools conveying narrowly specialized and little-transferable skills had been predominant during communism. In 1965, such schools were attended by respectively 64, 71 and 75 percent of all persons of secondary school age in Hungary, Poland and Czechoslovakia, compared to 58 percent in West Germany and 39 percent in Sweden.⁸ Lastly, post-communist governments were widely seen to be actively involved in industrial relations, through privatization, industrial restructuring, and bankruptcy policies. Even the most liberalizing governments, such as the Polish, continued to intervene in wage setting, in an effort to control inflation and promote competitiveness. Of all protest events that occurred in Poland between 1989 and 1993, the state was the prime target of protesters’ demands in 78 percent of cases, and managers/owners in only 17 percent.⁹

In addition to being especially threatened by unemployment, workers in non-competitive sectors were likely to have a higher-than-average ef-

fectiveness in mobilizing for disruptive protests. They were likely to be tightly connected in active social networks, if only by virtue of meeting each other daily on the job. A large body of empirical studies¹⁰ and theories of protests¹¹ and public goods provision¹² converge in showing that a higher number of social ties in personal networks significantly enhances the likelihood of success in mobilizing for collective action. All else equal, the more a certain group is laced with social ties, the more it can mobilize. Other features of the early-transition economies further created seemingly advantageous “structural” conditions for labor protests. Across twenty-six countries in Latin America, Asia and Africa, trade union membership has been positively correlated with the severity of labor protests (Nelson, 1992). But around 1989–1990, Central European union density rates were much higher even than in the most unionized of these countries. As table 3.1 shows, they were higher even than in many Western democracies. The share of industrial employment in late communism was also higher than in countries like France, Denmark, the UK and the US.¹³ Workers in transportation, mining, manufacturing and construction industries traditionally formed the core of union movements, and strikes by these sectors typically have a greater potential to disrupt the economy. Across eleven European nations the share of industry within overall employment has also been strongly positively correlated with the political salience of unemployment.¹⁴

To be sure, communist unions used to be “transmission belts” for the Party. Membership was less likely to reflect ideology than a desire for preferential access to social benefits.¹⁵ Given that they inherited an obvious credibility problem and extremely high density rates, unions could naturally expect to lose members in early transition. Yet none of these arguments imply that unions could not be turned into an assertive force in post-communist politics—indeed, many social scientists predicted precisely such an outcome.¹⁶ The early 1990s provided unseen new opportunities for political entrepreneurs well-adapted to the new competitive environment. Groups of former dissidents formed political parties and obtained majorities in the first national parliaments and governments. Ex-communist parties, which faced still stronger credibility problems than unions, re-manned their leadership positions and were brought back to power already in 1993 (Poland) and 1994 (Hungary). Of those who held political elite positions in Hungary and Poland in 1993, only 18 and 15 percent had been high-level party, state, or economic officials in 1988, while respectively 45 and 38 percent had had no subordinates whatsoever

in 1988. Of those who held cultural elite positions, respectively 7 and 26 percent had been high decision-makers five years earlier, while 32 and 26 percent had had no subordinates.¹⁷ High union density levels provided a similar opportunity for ambitious entrepreneurs to re-brand themselves by fighting combatively to protect the jobs, rights, and wages of their rank and file.¹⁸ After all, successful protest movements can thrive by appropriating the resources of existing organizational structures even when the latter were originally set up for other ends (McAdam, 1999).

Table 3.1. Trade union membership, industrial employment, employment in firms with more than 500 employees, and agricultural employment, in selected post-communist, conservative, social democratic and liberal countries, late 1980s (year between brackets)

<i>Regime Type</i>	<i>Country</i>	<i>Trade union membership (% of non- agricultural labor force)</i>	<i>Employment in industry (% of total)</i>	<i>Employment in firms with 500+ employees (% of total)</i>	<i>Agricul- tural employ- ment (% of total)</i>
<i>Post-Communist</i>	Czechoslovakia	77 (1990)	48 (1987)	97 (1989)	12 (1987)
	Hungary	74 (1985)	38 (1987)	79 (1989)	21 (1987)
	Poland	47 (1989)	37 (1987)	80 (1989)	29 (1987)
<i>Conservative</i>	W. Germany	30 (1985)	41 (1987)	62 (1987)	5 (1987)
	France	12 (1985)	30 (1987)	53 (1987)	7 (1987)
<i>Social Democratic</i>	Sweden	79 (1985)	n.a.	n.a.	n.a.
	Denmark	67 (1985)	28 (1986)	n.a.	6 (1986)
<i>Liberal</i>	UK	36 (1985)	30 (1987)	n.a.	2 (1987)
	US	15 (1985)	27 (1987)	n.a.	3 (1987)

Sources: Column 1: ILO (1997, 237–238). Columns 2 and 4: ILO (1989, 17, 156–157). Column 3: Roland (2000, 6–7).

Like workers in key industries, farmers were another large group that was both highly aggrieved and comparatively capable to organize disruptive

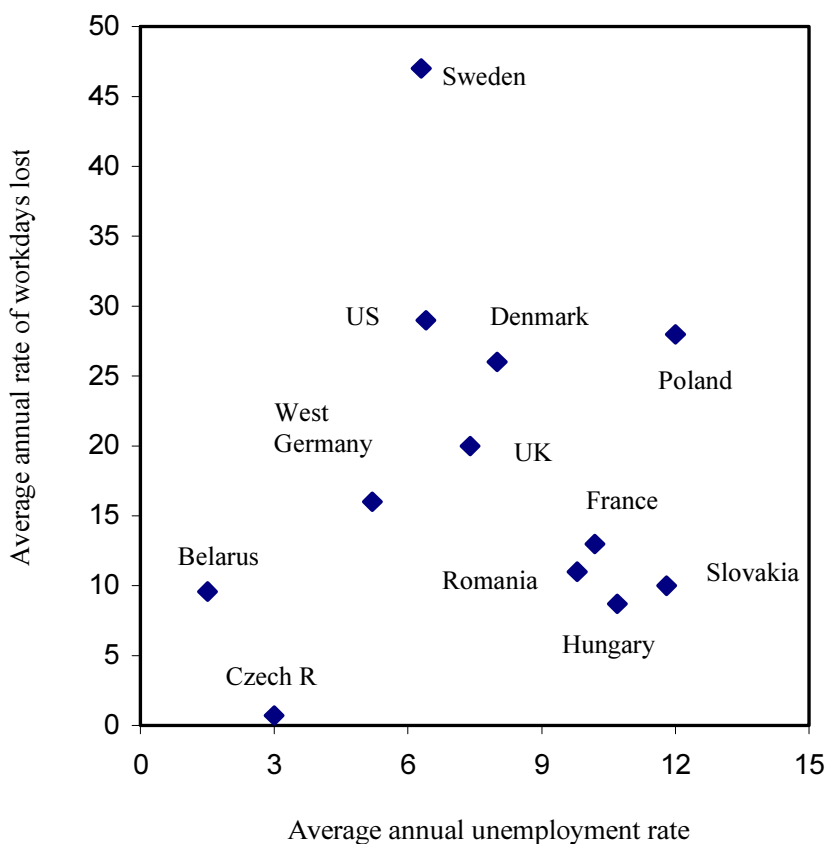
protests. Especially in Hungary and Poland, agriculture was a much larger source of employment than in all three Western welfare regimes.¹⁹ While farmers were not directly threatened by transitional redundancies, they were heavily affected by a number of core market reforms. In the communist shortage economy (Kornai, 1980), farmers were virtually certain to be able to sell whatever they produced, of whatever quality. Hungarian, Polish and Czechoslovak governments all guaranteed income parity between rural and urban incomes. Farm output prices, too, were subsidized (Milanovic, 1996, 135). Domestic liberalization policies during transition abolished many of these protective measures.²⁰ Import liberalization brought in cheap competition from world markets, further lowering domestic prices for agricultural goods. In Poland, the ratio of average farmer incomes to average non-agricultural wages slumped from over 150 percent in 1989 to below 50 percent in 1991 and 69 percent by 1995.²¹ Farmers' distress was likely to be particularly intense, as small-scale subsistence farming was more widespread in Poland.²² One decade after the start of transition, 95 percent of Polish farmers and 90 percent of village dwellers surveyed still described the situation of Polish agriculture as bad or very bad *and* blamed this state of affairs mainly on the government. Support for incumbent parties stood only at 20 percent among the rural population, and at 13 percent among farmers (Wilkin, 1999, 78–79).

Especially in Poland, there is a large stock of anecdotal evidence on the actors and methods behind protests. Unions of farmers, such as Individual Farmers' Solidarity and Samoobrona, in the non-industrial public sector and in state-owned bottleneck industries such as mining, energy and transport have most often engaged in disruptive actions.²³ But notwithstanding some high-profile individual cases, the real puzzle about post-communist protests is how little contentious they have been overall, despite a battery of seemingly adverse structural conditions. As chapter 2 has shown, the mean rate of workdays lost in industrial action in Poland was comparable to or lower than in countries such as Denmark, Sweden and the US, although Polish unemployment rates were higher. Fewer workdays were lost in Hungary than in countries such as France, the UK and West Germany, although Hungarian unemployment levels were higher. What accounts for this curious quiescence despite conditions for conflict?

3.2. Rival explanations of post-communist protest levels

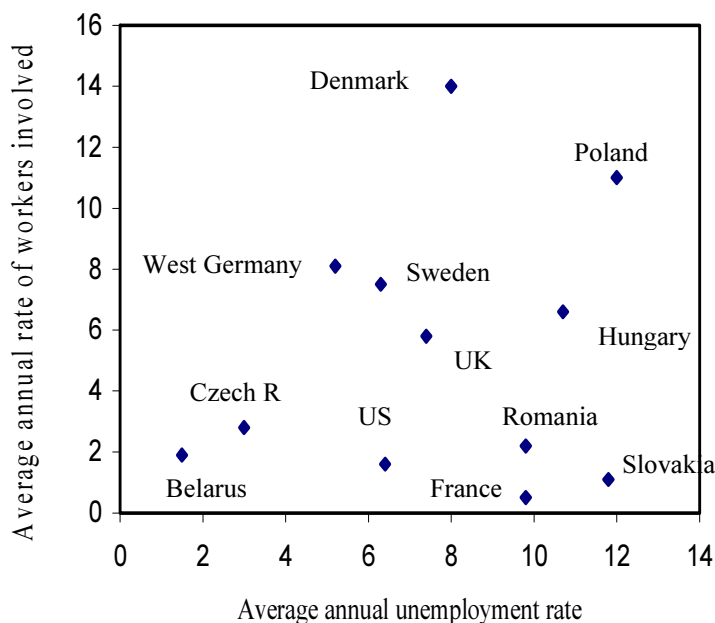
An important tradition in labor economics has argued that unemployment is negatively related with worker militancy (Aschenfelter and Pencavel,

Figure 3.1. Unemployment and the adjusted rate of workdays lost in strikes and lockouts in selected post-communist, conservative, social democratic and liberal countries, 1990–1995



Notes: Data for Hungary, the Czech Republic and Slovakia exclude 1990, those for Romania exclude 1990–1991, those for Germany cover only 1990–1992, those for France exclude 1995. Source: Computed from ILO (1997, 253–54, table 4.3) and World Bank (1996, 194–195, table 4) for figures on strikes; OECD Employment Outlook (2002, 303, table A) for Western unemployment figures, and UNICEF (1999, 142, table 20.10) for East European unemployment figures.

Figure 3.2. Unemployment and the adjusted rate of workers involved in strikes and lockouts in selected post-communist, conservative, social democratic and liberal countries, 1990–1995



Notes: Data for Hungary, the Czech Republic and Slovakia exclude 1990, those for Romania exclude 1990–1991, those for Germany cover only 1990–1992, those for France exclude 1994–1995. Source: computed from ILO (1997, 251–52, table 4.2), World Bank (1996, 194–195, table 4) for figures on strikes; OECD Employment Outlook (2002, 303, table A) for Western unemployment figures, and UNICEF (1999, 142, table 20.10) for East European unemployment figures.

1969; Kennan, 1986). Following the economic theory of strikes, the rising unemployment levels in early transition should have dampened industrial action, as the bargaining power of job holders was weakened because of the precariousness of their jobs and their easy substitutability by unemployed workers. Yet the Czech Republic, where unemployment levels were much lower than in countries like Hungary and Poland, experienced far lower levels of worker participation and lost workdays in industrial action. Similarly, many more workdays were lost in industrial action in the high-unemployment Slovak Republic than in the low-un-

employment Czech Republic. But the number of workdays lost in Slovakia was much below that in Poland, where unemployment levels were somewhat higher still.²⁴ Nor can the economic theory of strikes precisely account for the variation in strike levels within a wider sample of twelve Western and East European democracies. As figures 3.1 and 3.2 indicate, during the early 1990s the relationship between unemployment and industrial action in post-communist Europe has been weak and inconclusive.

A number of writers have similarly argued that transitional unemployment in Hungary and Poland has not been very consequential politically, based mainly on the observation that there have been few protest events in which the unemployed were ostensibly involved or in which unemployment and layoffs were mentioned as a grievance. This has been interpreted as a proof that the *political salience* of unemployment was remarkably low during post-communist transition (Baxandall, 2004, 123; Ekiert and Kubik, 1999, 150–151). Bartlett (1997, 229) concludes that “far from intensifying political opposition to economic transition, rising unemployment *diminished* it.”²⁵ Baxandall (2000, 632–33) similarly puzzles over the fact that “the sudden onset of mass unemployment in the 1990s has not been directly associated with social turmoil and popular outrage. Nor was the issue of unemployment the political powder keg that we might have expected given the previous importance of full employment as guarantor of social peace.”

These accounts are at odds with the empirical record. A substantial body of evidence, surveyed in chapter 2, indicates that unemployment has had a high salience in post-communist politics. It is therefore unwarranted to conclude that unemployment was not politically salient merely because it does not appear to have led to widespread participation or demands in protests. Instead, the evidence makes it more plausible to assume that *because* of its high salience, unemployment spurred governments to implement preventive damage control policies that were less apparent but no less real. Political favors can be bestowed on highly aggrieved groups even though they do not seem to protest, for instance in the context of a preemptive damage control strategy. Such strategies are especially important as unemployment is only a subset of wider labor market insecurity in terms of the social–psychological distress and anxiety it produces. And it is precisely among threatened *workers*, before they become unemployed, that the political threat generated by unemployment is likely to be strongest.²⁶

Theoretical accounts that take events at face value without recognizing potential elements of strategy are therefore in danger of missing out on crucial parts of the causal story underlying protests (or their absence) in the polity.²⁷ The danger of inferring strong conclusions solely from the ways in which governments *react* to *actual* protest events is further apparent in a curious argument put forward by Ekiert and Kubik (1999, 188). These authors draw attention to the real family income losses of non-agricultural workers (23 percent), peasants (28 percent) and workers-peasants (30 percent) in Poland between 1989 and 1994. These groups, they claim, all contributed to a “rebellious” civil society. Ekiert and Kubik then make much of the fact that although non-agricultural worker incomes decreased by “less” (meaning still one-quarter) than those of peasants and workers-peasants, non-agricultural workers nevertheless protested more than the latter two groups. Altogether, this regards a difference of respectively 5 and 7 percentage points. Although losing one-quarter of one’s income in five year’s time ought to qualify as severe deprivation by most yardsticks, Ekiert and Kubik claim that this shows the limited relevance of economic deprivation as a motivator of protests. But interestingly, these authors fail to address the most striking puzzle apparent in their own data. They show that the incomes of pensioners, a group which recorded near-zero participation in disruptive protests, never declined as radically as those of any of the other three groups. By 1994, pensioner incomes had even regained 1989 levels. Yet this regards a difference of respectively 24, 29 and 31 percentage points. In chapters 4 and 5, I indicate how preventive government policies may be the missing piece needed to solve this larger puzzle regarding economic grievances and protest levels.

In its early stages, the political science literature on East European protest movements has produced predominantly descriptive country studies.²⁸ However, a small number of more general theoretical arguments have been proposed in recent years (e.g. Crowley, 2004).²⁹ According to Szabó (2000a, 64; 2000b), the comparative quiescence of Central and East European polities in this period “can be explained by the novelty of the political order, that is, by the fact that the polity has just been established; everything has only recently been institutionalized, and the protest culture is still relatively new.” In the same vein, Ekiert and Kubik (2002, 225–226) suggest that the post-communist quiescence has been due to the sheer novelty of market democracy. They argue furthermore that it is

difficult to analyze changing features of protest as responses to changing opportunities: opportunities, defined as the general characteristics of the political system, *simply do not change much*. [...] In East Central Europe, where such an unchanging and poorly structured [protest] opportunity emerged after 1989, the magnitude of protest is by and large lower than in more established democracies. We suspect that this is the result of the demobilizing effect of the opportunity support structure's "excessive" openness and the weakness of institutional support structures for protest activities (including the availability of organizational, material, and symbolic resources), in comparison with Western democracies (Ekiert and Kubik, 1998b, 572–573).³⁰

However, to claim that the emerging post-communist polities simply did not change much stretches comprehension. One of the novelties of transition was precisely the fact that the individual costs of repression that were associated with engagement in any form of public protest were lower at the start of transition than they had been at any point during the preceding four decades. Moreover, this was a time when the opportunity to protest was being expanded formally or even created anew by law. For instance, the right to strike was formally recognized in both Poland and Hungary—in the latter country even within the constitution (Casale, 1997, 4–10). Before the end of socialist rule, on 15 April 1989, the Hungarian Parliament passed a Law on Associations and one on Assembly. The New Labor Code of 1992 recognized further rights of unions to organize and of workers to strike. Every worker there has the right to strike, independently of trade union membership (solidarity strikes excepted). In Poland, laws regulating collective bargaining and striking were signed by the President on 23 May 1991.³¹ Despite this, Ekiert and Kubik do not further specify why this "excessive" openness could be expected to have a "demobilizing" effect on aggrieved citizens.

Building on Western theories of corporatism and "protest opportunity structures," Ekiert and Kubik (1998b, 1999) and Kubik (1998) propose an "instrumental institutional" theory to explain post-communist protest magnitudes. These are posited to be a positive function of (a) restricted access to corporatist (tripartite) coordination structures, and (b) internal fragmentation and division of the labor movement.³² Both corporatist bargaining and labor union fragmentation are likely to play a role in determining the propensity of unions to engage in industrial conflicts. However, these variables would need to be specified more precisely in order to be able to explain actual outcomes. The formal existence of tripartite institutions may or may not have substantive effects on the level and nature of industrial conflicts. One crucial factor is the degree to which the

negotiations conducted at this level are really binding for all parties. Ekiert and Kubik (1998b, 574) and Seleny (1999, 492) suggest that the tripartite institution in Hungary (the Council for the Representation of Interests), set up in 1988, played a role in reducing industrial conflicts, unlike in Poland where such an institution was not established until February 1994. But even tripartism-favorable sources such as the ILO (1994, 41) have conceded that beyond an early success in 1990, the Hungarian Council has generally been weak. For instance, when in 1995 negotiations on macro-economic stabilization stalled, the government simply introduced a radical package without prior consultation with unions and which comprehensively hurt union interests. Yet despite the fact that two-thirds of the population was outraged with the package, the unions failed to capitalize on this wave of discontent by means of protest actions.³³

Formal access to tripartite bargaining is not helpful in explaining the Czech case either. The Czech Republic experienced lower strike levels than Hungary and Poland, despite a seemingly more favorable corporatist framework, including unions independent from government parties, a consolidated union movement, and a tripartite Council with extensive powers. Before being submitted to parliament, all social policy proposals had to be discussed in this Council, where employers and trade unions were represented as strongly as the government (Bruszt, 1993; Müller, 1999). Yet Czech unions failed to stake out a combative independent strategy, and gradually had to concede power after Vaclav Klaus took over the premiership from Marian Čalfa in June 1992. The legal practice of extending sector agreements to include non-signatory enterprises, approved by parliament in December 1990, was abandoned after 1995. New statutes severely downgraded the role of the Council, and pay scales for most public sector jobs were now set unilaterally by government (Myant and Smith, 1999, 270–272). Tripartite bargaining has historically been conducive to industrial quiescence mainly in countries where the bargaining process took place above the firm level at the level of industry, sector, or economy. In Central Europe, such high-level agreements have been on the decline. In Hungary, the number of registered sector-level agreements went down from 24 in 1992 to 7 in 1995, whereas that of registered enterprise-level agreements went up from 391 to 816. In Poland, only 10 collective agreements were concluded above enterprise level from the start of transition up to September 1996, compared to over 6,000 at firm level, more than a third of which were registered in the preceding two years. By 1996, 65 percent of local union branches in Hungary stated that

wages were negotiated at firm level, 72 percent in the Czech Republic, and 97 percent in Poland.³⁴

An original competing thesis on the comparative quiescence of East European transitions has been put forward by Béla Greskovits (1996, 1997, 1998). Inspired by Hirschman (1970), Greskovits argues that post-communist citizens combined “informal exit” (a retreat into tax evasion, organized crime, illegal employment, and many variants of the informal economy) with “democratic loyalty” (low levels of “non-democratic” protest in between elections and protest voting during elections). These are useful arguments broadly consistent with a wide range of observations (Vanhuysse, 2002c). Yet the causal mechanisms suggested for the post-communist quiescence are equally macro-structural. Specifically, Greskovits (1998, 85) identifies altogether four broad sub-strands of causal variables as having an alleged negative effect on post-communist protest levels. (a) The absence of extreme income inequality and poverty. (b) Cultural factors such as high education standards and the lack of a “living tradition” of political violence. (c) Demographic characteristics such as the high average age of the population and the high proportion of the population living in rural areas. (d) The rise of social expenditures as a percentage of GDP. Indeed, Greskovits contends that

a hypothesis concerning the socio-political risk of riots and related manifestations of political instability may be derived from comparing indicators such as the level of growth of per capita GDP, income distribution, size of social groups below or near the poverty line, the level of urbanization, share of population of large cities, educational standards, and traditions of political instability in the South and in the East (Greskovits, 1998, 76–77).

At a very aggregate level, post-communist Central and East Europe as a region does stand out from the Latin American subcontinent in earlier decades with respect to these variables.³⁵ However, these variables are much less helpful in explaining cross-national protest variation within Central and Eastern Europe. As table 3.2 shows, the relative share of the rural population was barely one percentage point lower in Hungary in the first half of the 1990s than in Poland and was substantially lower in the Czech Republic. Yet as we have seen, Poland experienced much more protest than Hungary, which itself was more contentious than the Czech Republic. Social expenditures as a percentage of GDP were two percentage points higher on average in Hungary than in Poland. But they were lower still in the Czech Republic than in the first two countries.

Table 3.2. Rural population (1990–1995), social expenditures (1990–1993), average annual GDP growth (1990–1995), increase in the Gini coefficient of income inequality (1987–1993), share of 20–24 age group enrolled in higher education (1965/1989), population 60+ as a share of population 18–59 (1989–1996), in Hungary, Poland and the Czech Republic

	<i>Rural population (% of total)</i>	<i>Social expen- ditures (% of GDP)</i>	<i>Average annual GDP growth (%)</i>	<i>Increase in Gini (points)</i>	<i>% of 20-24 age group in higher education</i>	<i>60+ population as % of popula- tion 18-59</i>
Hungary	37	29	- 2.3	+ 5	13/15	34
Poland	38	27	0.9	+ 6	18/20	27
Czech R	25	24	0.4	+ 8	14/18	32

Sources: Column 1: WIIW (1998, 249–250). Column 2: computed from UNICEF (1997, 135, table D.3). Column 3: UNICEF (1998, 118, table 20.1). Column 4: Milanovic (1994, 3). Column 5: Jackman and Rutkowski (1994, 134). Czech data refer to Czechoslovakia. Column 6: computed from UNICEF (1999, 112, table 2.5).

Other variables singled out by Greskovits are, at best, only partly consistent with the variation in post-communist protest levels. Average annual GDP growth in the early 1990s was higher in Poland and the Czech Republic than in Hungary. The increases in the Gini coefficient of income inequality in Poland and Hungary between 1987 and 1993 were of a similar intensity as in Britain under Thatcher's rule (Milanovic, 1994, 3). But they were higher still in the Czech Republic. Neither do educational legacies appear immediately helpful in explaining protest levels. A higher percentage of young people were enrolled in higher education in Poland than in Hungary and Czechoslovakia both in 1965 and in 1989. Only the population age variable seems more consistent with the Greskovits thesis, as the number of 60-plussers relative to that of working-age persons was lower in Poland than in Hungary and the Czech Republic.

Both Greskovits and Ekiert and Kubik refer to legacies in explaining post-communist peacefulness, but they occasionally make virtually opposite claims about the nature of such legacies. Thus Ekiert and Kubik (1999) discuss the five major waves of contention between 1956 and 1988 in communist Poland. But they then go on to consider Hungary's cultural legacy as similarly including "a well-established tradition of street demonstrations and struggles" (191), although they can cite just one instance (the October 1956 revolution) in support. In contrast, Greskovits

(1998, 179) claims that post-communist East and Central Europe was characterized by a “lack of a living tradition of political violence.”³⁶

The objective variables that form the basis of current theories of post-communist protests are perhaps best viewed as constraints to what is possible under concrete historical situations, without therefore determining the outcome of such situations. As elsewhere, macro-structural conditions alone can provide at most the context and the opportunity for different forms of collective protests, but they do not necessarily generate such actions (Przeworski, 1986, 48). Structural conditions such as the intensity and inevitability of the threat of job loss have been a poor predictor of trade union industrial actions in four post-war democracies (Golden, 1997; 1999). Analyzing close to 2,000 instances of collective disturbances in France between 1830 and 1960, Snyder and Tilly (1972, 524) find that macro-economic conditions such as industrial output and prices of food and manufactured goods have no significant influence on participation in such disturbances.³⁷ Similarly, econometric studies in many countries since the 1960s have produced no consistent relation between the number of deaths from political violence and economic variables such as the level of development or the degree of income inequality (Coleman, 1990, 487).

Material hardship may plausibly be expected to increase political opposition in most cases.³⁸ But this cannot be assumed to translate automatically into a higher macro-level incidence of protests because different groups are confronted with different obstacles towards organizing for collective action. An explanation of protests should therefore propose how groups vary in the ways in which they combine the hardship-induced propensity to protest (political grievances) with the context-induced capacity to do so (protest capacities). The existing explanations of post-communist protests point to a number of contextual variables that may well be relevant, although these are posited at a rather general level. For instance, whereas aggregate social spending per GDP, rural concentration or average population age may be little helpful as such in explaining protests, a specification of how particular welfare programs can affect the protest capacities of particular age groups or regions may prove more powerful. Macro-structural variables ought not to be dismissed from an explanation of post-communist protests. However, our understanding is likely to be better advanced by an attempt to “fill in” institutional contexts such as differences in local social networks between jobholders and jobless people with more fine-grained theories of strategic action.

3.3. Conclusions

Judging by a number of contextual variables which have historically been correlated with protests, the danger of large-scale disruption in the polity was very real in Central and Eastern Europe shortly after 1989. Communist legacies included high union density levels, sizeable farmer populations and many non-competitive firms and farms. Transitional losers who were accustomed to significant social protection such as threatened workers and farmers were both highly aggrieved and highly able to translate their grievances into disruptive collective action. This made for a potentially explosive social cocktail. But comparatively few large-scale protests have occurred during the early 1990s, even though groups such as taxi drivers, threatened industrial workers and farmers have mounted a number of high-profile individual actions. I have argued that existing economic, corporatist and structural explanations cannot fully account for the variation in post-communist protest levels. Instead, the key to the puzzle of post-communist quiescence may lie in something that has received far less attention in existing theories: the strategic role of social policies in preempting the political danger posed by threatened workers. This is the focus of the next chapter.

NOTES

- 1 I define democratic consolidation procedurally, as a state whereby “most conflicts are processed through democratic institutions, when nobody can control the outcomes ex post and the results are not predetermined ex ante, they matter within some predicable limits, and they evoke the compliance of the relevant political forces” (Przeworski, 1991, 51; 1986; 1988). For a critique of the substantive poverty and the implicit anti-labor bias of such procedural definitions, see Ost (2005).
- 2 Outright violent actions can be expected to be short in time, involving a small hard core of (male) participants, and commanding relatively little widespread support. On the scope, orientation and repertoires of protests, see Tarrow (1998), Tilly (2003).
- 3 For instance, in over 4,000 strikes in France between 1890 and 1935, workers obtained compromises in 60 percent of all strikes where violence was used (Shorter and Tilly, 1971). Violent strikes in Ontario between 1958 and 1967 included blocking plant entrances (23 percent), threats of damage or injury (12 percent), damage to property (14 percent), and injuries to persons (5 percent) (Sherman Grant II and Wallace, 1991). On labor militancy, see also Snyder and Kelly (1976), Crouch (1982), Golden (1997; 1999).

- 4 By resorting to disruptive actions, disadvantaged groups often force political leaders to react: “they provoke conflict, they arouse an array of third parties, including important economic interests, and they may even contribute to electoral dealignment and realignment” (Piven and Cloward, 1997, 331, 365). Other examples of successful disruption are the May 1968 strikes in France, the winter 1973–1974 strikes by British coal miners, and the winter 1978–1979 strikes by British road haulage and public service sector workers (Crouch, 1982, 76).
- 5 See Tarrow (1989, 1998), Piven and Cloward (1977, 1993, 1997). Piven and Cloward (1993, 6–7) argue that “the regulation of civil behavior in all societies is intimately dependent on stable occupational arrangements. ... Each behaviour and attitude is shaped by the reward of a good harvest or the penalty of a bad one, by the factory pay check or the danger of losing it. But mass unemployment breaks that bond, loosening people from the main institution by which they are regulated and controlled. [...] The result is usually civil disorder—crime, mass protests, riots—a disorder that may even threaten to overturn existing social and economic arrangements.”
- 6 Crouch (1982, 88–89, 100–101). Crouch suggests that disruptive protests are often successful because social order is a matter for which governments are directly responsible and about which they are acutely concerned for electoral and economic reasons.
- 7 Sherman Grant II and Wallace (1991, 1147). Similarly, in post-war Italy, Britain, the US and Japan, many of the most protracted and the largest-scale cases of ostensibly redundancy-inspired industrial action in the post-war decades were called by unions in contexts where the severity of the problems in the enterprises actually rendered such strikes virtually impossible to win from the start. The best predictor explaining strike levels in these cases proved to be the absence of a seniority rule sheltering long-tenured workers from dismissal when firms were in trouble (Golden, 1997; 1999).
- 8 Jackman and Rutkowski (1994, 128–129, 134). The limited wage dispersion across jobs and the weakly performance-related determination of wage levels further discouraged the acquisition and upgrading of skills under communism.
- 9 Ekiert and Kubik (1999, 134), see also Ost (1993, 460–461). On wage setting, see Jackman and Rutkowski (1994).
- 10 E.g. Tilly (1978), Tarrow (1998), Dixon and Roscigno (2003).
- 11 E.g. Chong (1991), Coleman (1990, ch.11), Oberschall (1994), Hardin (1995).
- 12 E.g. Marwell and Oliver (1993, ch. 5).
- 13 Industrial plants also tended to be of much larger size. In command economies, it was easier to plan output for a few big firms than for many small firms (Kornai, 1992a, 400–401; Estrin, 1994, 61; Roland, 2000, 6). This provided important economies of scale in mobilizing workers for collective action.
- 14 Baxandall (2001, 86; 2004). Political salience, as defined by Baxandall (2001), is measured as the percent of “democratic support” (being satisfied or very satisfied with the way democracy works) by the employed minus democratic support by the unemployed.
- 15 See Jackman and Rutkowski (1994, 123), Crowley (1997), Crowley and Ost (2001).
- 16 Poznanski (1995, 221) argued that “any substantial reductions of the workforce invariably lead to tensions—that is, lower discipline, disputes, and strikes. It could be that confronting ‘new’ owners—whose resources are limited and whose ‘legitimacy’ has yet to be established—may be an easier task for workers threatened with unem-

- ployment than dealing with the 'strong' [communist] state." For similar statements, see Przeworski (1991, 182), Crawford (1995, 27), and the overviews in Greskovits (1998) and Crowley and Ost (2001).
- 17 Fodor et al. (1995, 788, 797–798). Szelenyi and Szelenyi (1995) similarly find a high inflow of new elites in Poland and especially Hungary, where deliberate "administrative social mobility" policies were implemented. Elite positions in the new private sector were also wide open. By 1995, 45 percent of these positions were occupied by Hungarians who occupied executive posts in state-owned firms and institutions before 1990 (Kolosi and Sági, 1999a, 45). This phenomenon was dubbed the "revolution of the deputy department heads."
 - 18 There is some evidence that this is indeed what workers now expected from unions. Workers' decisions to join unions and their assessment of union performance were guided mainly by self-interest, not ideology (Osa, 1998, 37; Pollert, 2001; Ost, 2001). Gardawski observed that Polish workers "evaluate trade unions very critically as a force strangulating the economic development of the country. Simultaneously, they are always ready to support strikes organized by trade unions in their own enterprises with the goal of defending their interests" (quoted in Osa, 1998, 37).
 - 19 For similar figures, see Roland (2000, 6).
 - 20 For instance, in the Czech Republic, state subsidies to agriculture went from 4.2 percent of GDP in 1989 to 0.8 percent in 1993 (Milanovic, 1995, 22).
 - 21 Wilkin (1999, 77), see also Milanovic (1993, 5). These dramatic developments, however, were at least in part an artifact of the last-minute decision by the communist government led by Rakowski, which, in August 1989, freed the prices of most agricultural and food products and abolished the rationing of staple foods. Predictably, this resulted in significant increases in food prices, which caused the ratio of average farmer income to average non-agricultural wages to shoot up. But if farmers took their 1989 welfare levels to be the relevant reference point, they were likely to be more, not less, aggrieved by post-communist reforms.
 - 22 Economic liberalization policies in Hungary induced a greater degree of market competition in agriculture, while private farm ownership was less widespread than in Poland, where agriculture mainly consisted of a huge network of small-scale subsistence farms (Baxandall, 2000). By 1989 77 percent of the arable land in Poland was still privately owned, and private farms produced 78 percent of total output (Johnson and Kowalska, 1994, 214). Compared to Hungarian farmers, Polish farmers were thus both more dependent on their own production and more vulnerable (since less adjusted) to the introduction of competition.
 - 23 See Ekiert and Kubik (1999), Balcerowicz (1995, 298–300), Johnson and Kowalska (1994), Ost (2001).
 - 24 Slovak, Czech and Polish unemployment levels were on average respectively 10, 3 and 12 percent between 1990 and 1995. Consistent with the economic theory of strikes, the strike rate in the Czech Republic was higher, albeit marginally, than in Slovakia. See also Crowley (2004).
 - 25 Bartlett (1997, 330) similarly refers to a "politically inert population of hard-core unemployed workers who were far more inclined to stay on the public dole than to undertake active opposition to market reforms," but he fails to provide evidence for this "inclination to inertia."

- 26 On the social-psychological effects of labor market insecurity, see Burchell (1994), Gallie and Marsh (1994), and Gallie (2002). On the resistance to reforms and the disruptive threat posed by threatened workers, see respectively Saint-Paul (2000; 2002) and chapter 4 below.
- 27 As David Ost's (2005) insightful study of Solidarity in 1990s Poland indicates, an equivalent mistake would be to always equate protest participation with actual resistance. Ost shows how even when the prospect of losing their influence among members forced Solidarity union leaders to finally "lead" or "organize" strikes, the leadership's main aim was to actually contain and repress their rank and file, instead of combatively representing worker interests. Ost criticizes Ekiert and Kubik's (1999) reading of protest levels and economic grievances on similar grounds.
- 28 On post-communist union weakness, see Crowley and Ost (2001). On Poland, see furthermore Osa (1998), Ekiert and Kubik (1998a; 1999), Kramer (2002a;b) and Ost (2005), on the former USSR, see Crowley (1997) and Ashwin (1998).
- 29 A shorter, earlier version of the sections below was published as Vanhuysse, Pieter (2004), "East European Protest Politics in Early 1990s: Comparative Trends and Preliminary Theories," *Europe-Asia Studies*, 56(3), 421-438. See also <http://tandf.co.uk>.
- 30 For similar arguments, see Ekiert and Kubik (1999) and Kubik (1998). The term opportunity structure refers to work by Sidney Tarrow, which identifies four changes in the polity that may constitute an opening of the "political opportunity structures" (Tarrow, 1998, 86). (a) The opening up of access to participation. (b) The availability of influential allies. (c) Shifts in ruling alignments. (d) Cleavages within and among elites. Building on this, Ekiert and Kubik (1998b, 572-573) argue that during transitory politics all four dimensions were in flux, creating an "unstructured opportunity" or "too much freedom" for people to protest, which in turn "demobilized" them.
- 31 Kubik (1998, 141-142) himself observes so much. As elsewhere, limitations on the conditions for calling strikes did exist, but they were not overly restrictive. In Poland, only trade unions may call a strike. Other limitations regard special groups like the military and the police (Hungary), essential services such as public transportation, telecommunications and the supply of gas, water and electricity (Hungary) or emergency circumstances (Poland). Prior notice of strikes is required five days in advance in Poland, and one to two days, by custom, in Hungary. In Poland, 51 percent of all non-union workers need to agree before a strike may be called legally. In both countries, it is possible to appeal against strikes in court (Casale, 1997, 4-10).
- 32 Ekiert and Kubik (1998b, 576, 581) further reduce their theory's parsimony by adding another layer of explanatory variables, namely the "resources" available to mobilizing groups, meant "in a broad sense—that is, including traditions, symbols, and discourses alongside material and organizational elements." Seleny (1999, 497-498) similarly adds cultural, traditional, and discourse attitude variables to a broadly corporatist framework. She argues that political culture legacies were "pragmatic-consensual" in Hungary and "moral-confrontational" in Poland. On Western corporatism, see Lange (1984).
- 33 Fine (1997, 252), see also Ost (2000; 2001), Tóth (2001).
- 34 See ILO (1997, 148-149); also Crowley (2004, 406-407).
- 35 However, as Crowley (2004, 418) indicates, urban informal sector employment as a share of total urban employment is many times smaller in Central and Eastern Europe

than it is in Latin America. This should lead Greskovits to predict higher, not lower, protest levels in post-communist region.

- 36 Of course, these two claims are distinct and do not necessarily contradict each other. A country with a well-established tradition of street demonstrations may still lack a tradition of political violence. But both theories do present these two factors as part of the same overall crisis-proofness, and they do not themselves make any such distinction. Ost and Crowley (2001), Ost (2001) and Crowley (2004) in turn explain post-communist labor weakness by arguing that communist legacies endowed unions with low levels of trust, legitimacy, and worker agency. Yet the fact remains that other sectors of society, such as political parties and former “deputy department heads,” successfully overcame adverse legacies (see n. 17 above).
- 37 Disturbances were defined as “continuous interactions involving at least one group of fifty or more persons in the course of which someone seized or damaged persons or objects over resistance” (Snyder and Tilly, 1972, 522).
- 38 Of course, improving conditions may under certain circumstances increase, not decrease, grievance levels. As economic conditions improve, aspirations might improve more rapidly—Elster’s (1993) Tocqueville effect—or they might extend to other dimensions of life—Hirschman’s (1973) tunnel effect. Merton (1968, 291) hypothesizes, and Boudon (1986) proves, that a high rate of upward mobility may induce excessive hopes and expectations and thereby increase general frustration.

CHAPTER 4

Preventing Protests

Divide and Pacify as Political Strategy

“Post-communist transitions are ‘a Pandora’s Box full of paradoxes, in the face of which every ‘theory’—or, for that matter, rational strategy—of the transition must fail.”
Claus Offe (1991, 881)

Throughout history, political stability and social order have generally been prerequisites for economic growth and prosperity.¹ Assuming that early post-communist governments considered large-scale disruption by reform losers to be likely, how could they be expected to react? A wide range of strategies could be adopted in this context, but this chapter focuses on one particular strategy. The guiding assumption throughout is that in the initial stages of the transition, governments attached a high priority to low levels of disruption in the polity, *whatever else* they wanted otherwise. Governments in liberal democracy cannot reduce and should not repress all forms of political opposition. However, they can use their state power to limit the short-term damage to reforms by channelling the *expression* of protests away from disruptive means and towards more peaceful repertoires. Following up on Lichbach’s (1994) admonition that politics are key to understanding the particulars of protests, I develop a model whereby strategic social policies provide the solution, and local social networks the key. Central to this is the discussion of how the work–welfare status of individuals can be manipulated by governments in order to reduce the capacity of reform losers for mobilizing. I first spell out the incentives that governments had to offer in order to split up homogenous groups of threatened workers by sending some onto unemployment benefits (the unemployed) and many others onto early and disability retirement (the “abnormal” pensioners). I then show why this was likely to reduce the likelihood that the workers targeted by such a

“divide and pacify” strategy would successfully organize disruptive protests. I also indicate why the private work routines inherited from late communism and the economic hardships induced by transition raised the opportunity costs of protests, thereby further sentencing the unemployed and abnormal pensioners to political silence.

4.1. Divide and pacify in theory: Splitting up the threatened workers

Even when liberalizing governments have less scope in preventing job losses, they are not necessarily helpless with respect to the political effects of these losses. The hallmark of effective political leaders has often been precisely that they could turn adverse circumstances into political success. For example, having won the British 1979 elections and embarked upon a restrictive monetarist program, Margaret Thatcher presided over massive increases in unemployment from one million in May 1979 to over three million in 1982 and still two million in March 1989. Yet Thatcher regained power in two further general elections before resigning in 1991. This was in part because the unemployment boom disproportionately affected those parts of the country that were safe Labour Party seats anyway, namely the north, the northwest and the Midlands, which had the highest concentration of manufacturing industry. Similarly, during his fourteen years as Spanish prime minister after 1982, Felipe Gonzalez presided over an average unemployment rate which, at 20 percent, was more than double the West European average. Yet the share of unemployed people voting for Gonzalez’s Socialist party, while declining over time, remained higher than for any other party, in part due to Gonzalez’s continued emphasis on social policies and health care services as a top priority.²

In early post-communist transitions, unemployment shot up even more rapidly than in Spain or Britain. In Hungary, the number of registered job vacancies still slightly exceeded the number of registered unemployed people in March 1990, at around 34,000. But by February 1993, the number of vacancies had gone down to 32,000, while the ranks of the unemployed had swollen to well over 700,000 (Kornai, 1993, 322). Suppose that at the start of transition, a fixed fraction r of the labor force became threatened or struck by redundancy. Given the nature of transitional restructuring, this threat was not evenly spread over the labor force. In-

stead, it was concentrated in regions with a high share of employment in less competitive industries and firms. At the level of specific workplaces or industries, the fraction of threatened workers was therefore much larger still than r . In the early 1990s, the variation in unemployment levels between regions in Hungary, Poland and Czechoslovakia was larger than in most Western economies. By the end of 1992, when national-level unemployment stood at 12 percent, local unemployment rates among the 176 territorial sub-units in Hungary ranged from less than 4 to over 42 percent. Heavy industries were most dramatically affected. Between January 1988 and January 1992, the numbers of workers in the machine and construction materials industries went down by more than 20 percent, and those in metallurgy and mining by more than 40 percent.³

In other words, threatened workers were not randomly distributed over the workforce. Rather, they were more likely to be closely linked socially and spatially. They often interacted in the same firm and belonged to similar occupational categories simultaneously threatened by redundancy. Since active social networks occur naturally at workplaces, these form an ideal environment for grievance sharing, uniting, coordinating and recruiting workers to mobilize successfully. In Dixon and Roscigno's (2003, 1300–1301) words: "the work unit becomes the natural network conduit, and within the unit lies the potential that consciousness, working class identity, and grievances will homogenize among unit members despite status variations that exist." Given the high psychological salience of transitional unemployment and the earlier experience of austerity protests in other reforming countries, it is unlikely that the first post-communist governments were complacent about the danger of industrial disruption. The threat of large-scale protests was real, and likely to be perceived as such by policymakers.

Bearing in mind that it can be risky to take political actors' statements at face value (Dixit, 1996; Golden, 1997), post-communist policymakers did express such concerns in public. Writing as early as the second week of the Balcerowicz program in Poland, its most influential foreign architect, the Harvard economist Jeffrey Sachs, warned that "populist politicians will try to hook up with coalitions of workers, managers, and bureaucrats in hard-hit sectors to slow or reverse the adjustment—just as they have, successfully, in Argentina for more than a generation."⁴ Solidarity figurehead and parliamentary leader Bronislaw Geremek wrote in 1990 that a complete social acceptance of new poverty and a "political ceasefire" were needed. Conflicts were dangerous, as they "inevitably

lead to the demise of social peace, with all its consequences.”⁵ In early 1992, the Polish Interior Ministry compiled a security document for internal government use, which warned of the dangers of social unrest and noted that “there is a substantial threat to the fundamental interest of the Polish state.”⁶ Writing after his first two terms as Polish Finance Minister, Balcerowicz (1995, 163) acknowledged that “absence of open unemployment during the transition is a great help [...] The intensity of labor unrest seems to depend on the presence of militant workers [...] as well as on the existence of influential trade unions that played a role in toppling communism only to turn increasingly populist.”

However, in any concrete instance, the outcomes of collective protests can be understood only by informed judgement of the social and institutional context—the analytical “circumstances”—in which they take place. Different social groups, even if they are equally numerous and aim to pursue similar public goods, may still face very different prospects of successfully organizing protests.⁷ The effectiveness of groups in mobilizing for protests is likely to vary according to a number of social variables, notably the work–welfare status of group members and the various degrees of organization and social connectedness which this status implies. If social status determines collective action capacities, it is also amenable to strategic manipulation by governments, for instance by social policies that transfer individuals between groups. This indicates why post-communist governments also had some strategic leeway to reduce the expected political consequences of the spiraling rise in redundancies.

Consider a simple model of a stylized welfare state in a population of size n which is divided into two broad age groups: workers (the young) and pensioners (the elderly). The elderly make up one-third of the population (group size $n/3$) and the “potential” labor force, under full employment, has a size $2n/3$. Assume that the demographic structure of the population (the population size n and the share of each age group) remains constant. Thus the old age dependency rate (o), defined as the elderly population divided by the working-age population, does not change over time. Welfare benefits equal the average wage in the economy (w_t) times the specific replacement rate (the average value of the benefit received divided by the average wage in the economy) for unemployment (u_t) and pensions (p_t). Welfare spending by government is funded fully (and only) by obligatory taxes on wages on a pay-as-you-go basis. Period 0 represents the communist steady state and is characterized by full employment and a welfare state consisting of one program, pensions, which

are received by all elderly people. There is no (official) unemployment, hence no such welfare program. Other “welfare-like” expenditures (such as family allowances, health care and housing) are conditional on having a job and are assumed to be included in the worker wage w_0 . Period 1 represents the transition to democratic capitalism. Employment and wage levels under capitalism are determined largely by supply and demand on markets. Transitional restructuring implies the immediate closure of a number of obsolete state enterprises, and the privatization and downsizing of others, involving additional redundancies. Assume that the government is now faced with an exogenously fixed, and persistent, fraction $r > 0$ of the labor force that has become redundant. Employment now equals $(1-r)2n/3$.

Now suppose that the government succeeds in implementing a “divide and pacify” strategy to split up r into first, a part $r-\alpha$ of workers who are effectively to become redundant, and second, a part α of workers who are to go on *abnormal* retirement, that is, early and disability pensions. To make sure that those who are targeted to retire abnormally will actually do so, incumbents need to provide the following incentive:

$$\sum_{t=1,x} \delta^t u_t w_t < \sum_{t=1,y} \delta^t p_t w_t \quad (4.1)$$

where x and y are the expected number of years of entitlement for each benefit, u and p are the replacement rates (benefits/average wages) offered for unemployment and pensions respectively, and δ is the relevant discount factor in each period. Condition (4.1) is certain to be met in the following case:

$$u_t = \pi p_t \quad \text{for } 0 < \pi < 1 \quad (4.2)$$

And

$$x < y \quad (4.3)$$

In addition to the advent of unemployment in transition, these relative incentives to go on unemployment versus pension benefits further perturb and split up the work–welfare set-up of society in politically consequential ways. Table 4.1 indicates how.

Divide and pacify policies split up a fairly homogenous population of workers into three different groups with a distinct work–welfare status. In addition to the two prior work–welfare categories, working workers and normal pensioners, two new ones are created: unemployed workers, and abnormal pensioners. While the electoral payoffs of these policies are

hard to predict, their effects on the protest effectiveness of unemployed and abnormally retired people are likely to have raised the hurdles these groups faced in organizing disruptive protests.

Table 4.1. Work–welfare composition of society and voting power of various groups before and after divide and pacify

Period 0 (communism)	Period 1 (transition)
Workers = $2n/3$	Working workers = $(1-r)2n/3$
	Unemployed workers = $(r-\alpha)2n/3$
Pensioners = $n/3$	Normal pensioners = $n/3$
	Abnormal pensioners = $2\alpha n/3$

4.2. Higher hurdles: The protest capacity of the unemployed and abnormal pensioners

The three different work–welfare groups resulting from divide and pacify policies were now divided by new distributional conflicts. Post-communist governments were confronted with vicious cycles of declining tax revenues and rising tax and contribution rates (Kornai, 1992b). By creating a category of abnormal pensioners, divide and pacify policies diminished the number of tax and social security contributors and increased the number of welfare dependants. This further enhanced the post-communist macro-financial crisis. In this context, public spending on pensions was likely to come at the expense of other welfare programs, including unemployment benefits. This reduced the likelihood of political coalitions between pensioners and the unemployed. The high labor market insecurity in post-communist economies in turn reduced the potential for interest coalitions between jobholders and the jobless. As Saint-Paul (2000, 2002, 2004), Akerlof (2005) and others have shown, the interests of the unemployed clash directly with those of workers and union members along a large number of dimensions, including the question of whether to protect insiders' jobs through firing costs, minimum wages, work rules and social norms, or to reduce such institutional rigidities in order to create new jobs for outsiders.

Unions have sometimes pushed strongly to protect the generosity of pensions as an indirect way of promoting current working members'

interests through the implicit promise of “deferred wages” (Myles, 1984). But this is no longer a viable strategy in maturing pay-as-you-go systems, where shrinking workforces need to finance the pensions of larger and longer-living pensioner populations. In such contexts, any political promise of deferred wages faces a major time-inconsistency problem. In addition, higher unemployment levels have been empirically correlated with union membership decline in recent decades, as they have signaled weaker incentives for workers to join unions in the first place.⁸ Straightforward cost concerns are another reason why workers who lose their jobs for longer periods generally have few motives to retain their membership of trade unions. As the 1993 World Labor Report observes: “the unemployed tend to leave their unions. Some lose their membership automatically when not employed, but others feel that they cannot afford even the reduced fees or just see no advantage in remaining members.”⁹ Lastly, workers who were offloaded onto either unemployment or pension programs had no strong independent pressure groups to fall back on in the early 1990s. In terms of protest mobilization, the collective action problem confronting the new abnormal pensioners was the significantly larger one of organizing from scratch, rather than drawing on the resources, networks, and know-how of a pre-existing organization.

A number of additional psychological and sociological mechanisms combine to explain why the hurdles in mobilizing for disruptive protests were going to become increasingly difficult to surmount for abnormal pensioners and unemployed people. Having a job, especially to the extent that it involves a certain degree of self-direction, generally enhances people’s sense of agency along a wide variety of dimensions. Being employed structures life, creates a sense of individual and collective purpose, and enhances and widens social ties (Jahoda, 1982; Gershuny, 1994). It instills a sense of personal agency (Kohn, 1990; Lane, 1991) and of doing something externally valued (Elster, 1986a; 1988).¹⁰ Importantly, the collective action capacity of people without formal jobs is reduced also by well-established social network changes. For instance, Hungarian low-skilled white-collar and low-skilled blue-collar workers had fewer network contacts and memberships in voluntary associations, and maintained fewer postcard contacts, than either managers or self-employed persons and entrepreneurs. But on all three counts, these two groups of low-skilled workers were still more sociable than the unemployed and the pensioners (Angelusz and Tardos, 1999, 266).

Even when the social networks of unemployed people are not less extensive than those of the employed, the unemployed do tend to become increasingly segregated from the employed. This social segregation typically sets in relatively soon after the loss of work, and it tends to become stronger as unemployment spells grow longer. For instance, among wage earners in Britain, 85 percent of men and 78 percent of women reported that their friends and mates were all or almost all in employment. But among those unemployed for less than six months, respectively 55 and 45 percent said so. And among those unemployed for more than a year, only 19 percent of men and 44 percent of women said so (Gallie, 1994, 131). People outside the labor force such as housewives and pensioners had social networks more similar to those of the unemployed than to those of the employed. Only 42 percent of male and 46 percent of female non-active respondents reported that their friends were all or almost all employed (Gallie et al., 1994, 254). Similar patterns of sociability were evident in a recent East-West comparative study. In Britain, 49 percent of unemployed respondents reported that half or more of their friends were *unemployed*, compared to only 14 percent of employed respondents. In the Czech Republic, Slovakia and Bulgaria, respectively 21, 38, and 42 percent of unemployed respondents reported that half or more of their friends were unemployed, compared to 6, 20 and 29 percent of employed respondents (Gallie et al., 2001, 48).

While the experience of unemployment does not necessarily reduce the quantity or frequency of social contacts, it does change their nature. The unemployed tend to do more activities in household contexts and with other unemployed people. Moreover, they tend to spend much more time doing activities that are passive and self-oriented (especially personal care, sleeping and eating) and free or relatively low-cost.¹¹ When sociability is defined to tap the heterogeneity and frequency of *extra-household* contacts, the unemployed record markedly lower scores than the employed, with non-active persons scoring in between. And tellingly, the most sociable (thus defined) among the unemployed tend to record lower scores on measures tapping a feeling of purpose and agency than do even the least sociable among the employed.¹² Again, sociability tends to decline virtually uniformly as unemployment spells increase. Fewer people reported meeting “friends and relatives who are not living in the household on most days” among those who were unemployed for longer than a year than among those who were unemployed for less than a year in ten European countries out of a sample of eleven. Fewer people par-

ticipated “in any club or organization” among those who were unemployed for less than a year than among those with stable jobs in all eleven countries, and still fewer did so among those unemployed for longer than a year in eight countries (Paugam and Russell, 2000, 252, 259). As long-term unemployment was high and rising in post-communist democracies, these declining sociability effects were likely to be especially pronounced (chapter 6).

In other words, after becoming unemployed or abnormally retired, the individuals targeted by divide and pacify policies were likely to leave pre-established organizations for collective interest representation such as unions. This work-to-welfare status transfer was especially likely to pay off politically because of the particular workers that were targeted. Both seniority status and union membership significantly increase individual strike participation, over and above any effects of other individual and social network variables (Dixon and Roscigno, 2003). In the absence of a seniority rule protecting the more senior workers in case of mass dismissals, the latter typically act as well-connected activists highly motivated to strike (Golden, 1997). In addition, the unemployed and the abnormally retired were now locked in distributional conflicts over ever-scarcer state resources, both between themselves and with respect to workers. These raised the hurdles for building cross-cutting coalitions. Lastly, their progressively less heterogeneous social networks were likely to further reduce the ability of these groups to recruit and coordinate individuals for collective protests, and to diffuse such protests geographically. In sum, even though the abnormally retired and the unemployed were still of working age and had only recently held jobs, their transfer to the status of welfare dependants soon deprived them of key elements needed for successful mobilization.¹³ Below, I elaborate on key intuitions by Kornai (1992a), Róna-Tas (1997) and Greskovits (1998) to show why government policies in late communism and early transition have increased the opportunity to exit into private and informal employment, thereby further reducing participation in collective action.

4.3. Informal exit and small-scale work before and after 1989

Students of communism have often pointed that informal markets were widespread under communism, even though these were diametrically opposed to state ideology. In the case of Hungary, this has been

interpreted as part of a tacit no-opposition/pro-consumption “social compact” that was struck between state and society after the brutal repression of the 1956 revolution.¹⁴ But what is less clearly emphasized are the channels through which these informal markets affected citizens’ capacity to organize protests by changing the opportunity costs of collective action.¹⁵ Starting from the early 1980s, the Hungarian Communist Party further recognized the “secondary” economy.¹⁶ Whereas private household farms of cooperative members had earlier been considered as obnoxious “bourgeois remnants,” by the early 1980s the Party declared them to be “a permanent component of agriculture under socialism” and it now encouraged state cooperatives to assist them. The production of food on household plots and the sale of food on free markets were legalized and restrictions on keeping animals and owning machinery were lifted. As a result, these private household farms already produced 18 percent of total Hungarian agricultural output by 1984. Private auxiliary production by people with nonagricultural professions produced a further 15 percent.¹⁷

In the same vein, far-reaching new laws were implemented in January 1982 to relax some existing limitations on old forms of private work by artisans, tradesmen, taxis, trucks, shops, pubs, and restaurants. For the first time ever, four types of private business could be established. Economic work partnerships could perform a wide range of services, and civic legal associations covered small retail traders. Two other types, specialized work partnerships (for cooperative agricultural work) and company work partnerships (for industrial manual work), still operated under the auspices of state firms, where private associates could now legally make after-hours contracts, for wages up to three times higher than those received during working hours (Róna-Tas, 1997, 146–149). These partnerships were equally popular.¹⁸ By the mid-1980s, the Hungarian private sector reached astonishing proportions—for a communist state. In 1984 this sector accounted for a third of total active time and for more than half of new residential constructions. Non-state production accounted for close to nine-tenths of repair and maintenance services by 1983, with informal do-it-yourself household activities (one half) and informal private sector activities (one fifth) accounting for the largest part.¹⁹

The extra private income which workers in formal state jobs could now legally earn and the allocation of social benefits conditional upon formal state employment (chapter 2) jointly raised the opportunity cost of protests. Allocated at the discretion of party officials, social benefits

served as selective incentives—excludable, private goods—that could countervail incentives to engage in collective action.²⁰ By contrast, all four new types of private business partnerships were excluded from benefits such as health care, child care and educational services (Róna-Tas, 1997, 84, 144). However, while retaining the security of state wages and welfare, state workers could now shirk and redirect their genuine efforts towards extra private earnings.

Importantly, a parallel list of specific regulations accompanied the liberalization of private enterprise in Hungary. While restrictions on the quantities of food sold on markets were lifted, existing restrictions on the size of the household plots where this food could be produced remained in place (Kornai, 1986, 1702). Membership in civil legal associations was limited to four and in economic work partnerships to thirty (in addition to maximum ten salaried workers). Simultaneous membership in more than one partnership was forbidden, but membership of close relatives was subject to no limitations whatsoever.²¹ Economic sociologists traditionally distinguish “weak” social ties formed by colleagues and acquaintances from “strong” ties in homogenous and frequently convening circles of families and trusted friends.²² Though strong ties tend to be more cohesive and higher in trust than weak ties, they are more closed to the outside world and less conducive to centralized leadership and mobilization for collective action. Viewed in this light, the ban on overlapping membership in private businesses cemented the strict size restrictions of private workplaces and limited the number of weak ties across different workplaces. The liberal rules on family members in turn stimulated strong ties with a shorter social reach, which posed a smaller collective action threat.

Citizens under communism had strong incentives to invest predominantly in strong ties also for other reasons. The absence of third-party sanctions and the high risk of economic transactions tend to make the informal economy highly dependent on strong in-group trust (Gambetta, 2000; Portes and Haller, 2005). Detailed accounts of everyday monitoring by the secret services and of informing by fellow citizens testify that there were high costs attached under communism to trusting anybody whose precise personal background was only imperfectly known.²³ So whereas in Western market economies weak ties are often highly instrumental in helping citizens to get access to jobs and other valued goods, in communist societies such ties were actually a source of considerable political risk. The economic opportunities in small private workplaces and the political risks of trusting all but one’s closest ties are likely to have

influenced the nature of social networks. For instance, in East Germany in 1989, personal networks had a mean size of 11 persons, compared to 19 and 22 for similar networks in California and the Netherlands.²⁴ Indeed, during communism retreat within dense face-to-face circles of strong ties actually “became a substitute for civil society rather than an integral part of it.”²⁵

In the early post-communist years, most people were likely to cope with the increasing material hardship by a continued reliance on the specific work routines and informal network ties that they had developed during late communism. Douglass North (1990; 1998; 2005) has recently emphasized how reactions to economic change are driven both by formal incentives and by informal and subjective rules and beliefs. Thus “although wholesale change in the formal rules may take place, at the same time there will be many informal constraints that have great survival tenacity because they still resolve basic exchange problems among participants” (North, 1990, 91). Membership levels in civil society organizations have elsewhere been an alternative channel for the mobilization of democratic protests (Almond and Verba, 1963). But civil society in post-communist societies remained distinctly weak throughout the 1990s. As Howard’s (2003, ch. 5) insightful empirical study indicates, participation in civil society was not just significantly lower than in Western democracies. It was also strongly negatively associated with variables such as mistrust of communist organizations, disappointment with post-communist developments, and the persistence of friendship networks. Paid and voluntary employment in the nonprofit sector accounted for 1.2 percent of GDP in Hungary in 1990 and for 1.6 percent in 1995—compared to 10 percent in Western Europe (Rose-Ackerman, 2001, table 8). On average, Hungarians had three times as many kinship contacts as non-kinship contacts in 1997, whereas Americans reported a fifty-fifty distribution. Membership in unions and voluntary organizations averaged 0.4 in Hungary, compared to 1.5 in the US (Angelusz and Tardos, 1999, 259, 260).

Greskovits’s (1998) informal exit mechanism acquired a crucial role in the transition. In a context of high and rising pools of jobless workers, informal employment became under many circumstances a win-win game for employers and informal employees alike. The high payroll tax levels on formal labor only served to increase the attractiveness of informal work. Between 1990 and 1993, average payroll tax rates stood at 27 percent of gross wages in the Czech Republic, 32 percent in Hungary,

and 42 percent in Poland.²⁶ Employers could hire informal labor at wages net of these taxes. Informal workers out of formal jobs such as abnormal pensioners and the unemployed could thereby increase their income, whereas those with formal jobs could top up their earnings net of taxes after hours. Around 1989–1990, the new Central European governments inherited a hidden economy that was already well developed. Average gross monthly income from “invisible” sources (such as tips and illegal jobs), small agricultural plots, and second jobs amounted to respectively 23, 27, and 43 percent of average gross monthly earnings from official first jobs in Hungary in 1989.²⁷ Based on macro-level household electricity consumption, Lacko (2000) estimates the size of hidden economy in 1990 at 11 and 17 percent in Sweden and Denmark, 12 and 15 percent in France and Germany, and 10 and 13 percent in the US and Great Britain. As table 4.2 shows, post-communist countries were characterized by substantially higher shares already at the start of the transition. And yet, both Lacko’s (2000) and Johnson et al’s (1997) estimates converge in indicating that over a span of five years, the share of the informal economy generally did not decrease significantly in the post-communist region.²⁸

Table 4.2. Estimates of the size of the informal economy as a percentage of GDP

	<i>Lacko (2000)</i>		<i>Johnson et al. (1997)</i>	
	1990	1995	1989	1994
Hungary	25	30	27	29
Poland	23	24	16	15
Czech R.	24	22	6	18

Sources: Lacko (2000; 121, 135), Johnson et al (1997, 193).

The proportion of Poles who believed that at least half of the unemployed were actually working despite receiving unemployment benefits went up from one-half in 1992 to two-thirds by 1998. Over half of all Poles by 1998 believed that such practices “should be excused because it is difficult to live on unemployment benefits,” compared to one-third who thought they “should be condemned as cheating the government.”²⁹ Even ten years after the start of the transition, various types of illegal activity were still considered to be legitimate by large proportions of the population. Table 4.3 indicates that especially providing false data to avoid income taxes and hiring someone illegally to avoid taxes and social security

contributions were widely condoned everywhere, with Hungary topping the bill in both cases.

Table 4.3. Percentage of respondents judging various categories of tax evasion and informal work to be “excusable” or “praiseworthy,” in Hungary, Poland and the Czech Republic, 1999

	<i>Providing false income data in order to avoid taxes</i>	<i>Employing someone else illegally in order to avoid taxes and social security contributions</i>	<i>Providing false income data in order to get more social transfers than one can get legally</i>
Hungary	45	42	14
Poland	35	29	16
Czech R.	23	23	19

Note: The other possible answer category was that it “should be disapproved.”
Source: own calculations based on Janki and Tóth (2001, 5, table 3).

Unlike transitional winners such as the new entrepreneurial elites and younger workers with highly valued or easily convertible labor market skills, the groups targeted by divide and pacify policies had few opportunities to rapidly change their participation rates in the informal economy. To the contrary, the material hardships of transition almost certainly increased the economic *necessity* for them to moonlight. Most of the accomplishments of the communist states, such as the heavy subsidies for basic goods, were being reformed or abolished in ways that especially increased the material insecurity of transitional losers.³⁰ As the market was introduced, low-income citizens were hit by a double shock. The abolition of most subsidies on basic necessities did not just increase absolute prices; the market correction of prior price distortions also made staple goods more expensive relative to luxury goods. During preceding decades in Third World countries, this type of adverse price developments and subsidy cuts had been common triggers of violent and disruptive austerity riots (Bienen and Gersovits, 1986; Walton and Seddon, 1994).

In early post-communist Central Europe, moreover, these price rises and subsidy cuts for basic goods occurred within a general context of rapidly rising unemployment and poverty rates, sharply decreasing real wages and per capita incomes, and increasing income inequalities. Public

housing shortages, another endemic feature of the communist economy, became more acute still in the transition.³¹ After 1989, this informal coping approach extended in scope and intensity. For instance, the estimated proportion within total Hungarian house building which used informal work increased from 25 percent in 1977 to 43 percent in 1987 and 56 percent in 1991 (Sik and Wellman, 1999, 231–232). In 1991, 75 percent of households in Poland, 81 percent of households in Hungary and 91 percent of households in Czechoslovakia reported to get by by engaging in at least one of four forms of intra-household production—growing food, building or repairing the house, or queuing for more than an hour per day. The proportion of households engaging in various forms of reciprocal transactions such as exchanging help with friends in growing food, shopping, baby-sitting or transportation, amounted to 49 percent in Poland, 53 percent in Czechoslovakia and 60 percent in Hungary that year.³² By 1994, 69 percent of Hungarians, 71 percent of Poles and 78 percent of Czechs reported that they were coping only by participating in multiple economies, including growing their own food and holding a second moonlighting job (*Transition Newsletter*, 1994, 12). As I indicate below, for the two groups targeted by divide and pacify policies, the economic incentives to moonlight were particularly compelling.

4.4. Sentenced to silence: Protest opportunity costs of the unemployed and abnormal pensioners

Being without structured daytime occupation yet still able to work, both abnormal pensioners and the unemployed had ample time on their hands for doing all sorts of informal work. And there were urgent economic reasons to do so. While not earning working wages, unemployed people tend to be materially insecure also in different ways. Being more household-oriented and less heterogeneous, their social network ties are generally less able to provide them with material security. The number and heterogeneity of social ties are strongly positively correlated with the capacity of networks to provide various sources of material and social support. In Eastern and Western Europe alike, consistently fewer unemployed than employed respondents reported being able to rely upon someone from outside their household when (a) they needed money for an urgent bill, (b) they were depressed, and (c) they were looking for a

job.³³ The unemployed also reported more frequently to have persistent financial worries. And unlike in Western countries, in post-communist societies these responses went up as unemployment spells grew longer. In the Czech Republic, Slovakia and Bulgaria, respectively 21, 27 and 33 percent of those unemployed for less than half a year reported worrying almost all the time about money, compared to 29, 42 and 57 percent of those unemployed for longer than three years (Gallie et al., 2001, 44).

Taken together, these constituted the conditions of scarcity in which the material incentives to free-ride were most likely to reduce participation in collective protests.³⁴ The opportunity costs of disruptive protests for unemployed and abnormally retired people were likely to be higher than those for workers in employment. Being in more dire financial straits, the former groups derived a higher marginal utility from informal earnings.³⁵ The material incentives to free-ride were particularly compelling, and the non-material motives to participate in protests comparatively “expensive,” for unemployed and abnormally retired people after divide and pacify. This was the case even despite the possible equivalence of both groups with other working-age groups in terms of age, physical ability, prior work history, and, potentially, ideology or education levels.

In other words, divide and pacify policies effectively sentenced working-age people to economically compelling forms of “silent non-exit” such as informal work.³⁶ While by no means reducing social discontent, these policies diminished the capabilities of transitional losers to disrupt the polity. In so doing, they channeled the *expression* of political “voice” towards repertoires that were more peaceful and cheaper to express, such as opinion poll surveys, letters and statements, signature collection campaigns, and anti-incumbency voting. In addition, the levels of actual political involvement and electoral turnout among these transitional losers were likely to be comparatively low, despite high grievance levels.³⁷ Even when laid off or retired only recently, the unemployed and abnormal pensioners shifted to become members of large anonymous categories that did not frequently convene in regular or structured ways. Their relationship with the state now became individualized and strongly dependent. Being deprived of their previous ability to share grievances, identify joint interests, unite and recruit at the workplace, they were now stripped of major assets for collective mobilization.³⁸ By transferring threatened workers to the status of welfare state dependants, strategic social policies could thus reduce the likelihood that local clusters of

workers could exploit their high connectedness to organize disruptive protests. Of course, to make employment incentive-compatible (that is, to avoid unemployment traps), any welfare benefits offered by governments had to be strictly lower than the average working wages (w_t) net of taxes (τ_t):

$$u_t w_t < (1 - \tau_t) w_t \quad (4.4)$$

And, given (4.2) and (4.4),

$$p_t w_t < (1 - \tau_t) w_t. \quad (4.5)$$

So moving from labor market status to welfare recipient status inevitably involved immediate material losses. But the relevant calculus for workers to make was to see which decision would allow the highest stream of income as discounted over the foreseeable future. This points to an important further reason why the abnormal retirement option, though costly, contained an element of political rationality. For obvious rule-of-law reasons, government policies in liberal democratic contexts cannot be explicitly discriminating or obviously earmarked towards closely specified groups or individuals. The abnormal retirement option therefore had to be framed in a universal way as a macro-policy that regarded anyone who qualified according to the prevailing technical criteria of eligibility. But given the non-random nature of transitional unemployment and the political threat it represented, this policy nevertheless allowed a convenient degree of “self-targeting” according to two micro-level traits: individual-specific uncertainty, and risk aversion. That is, both the more threatened and the more risk-averse workers could choose the immediate safety of abnormal retirement, at replacement rates lower than net working wages (equation 4.5) but higher than unemployment benefits ($\pi < I$).³⁹ At the same time, less threatened or less risk-averse workers could make a calculated gamble. They could (a) keep their job at wages w_t , or (b) go on unemployment benefits with a temporary lower replacement rate now ($u_t = \pi p_t$) but with the possibility to become reemployed and earn a higher working wage later.

Unlike other compensation schemes, the early exit mechanism also had the advantage of being relatively time-consistent. As Dixit and Londregan (1995) and Dixit (1996) have spelled out, economically efficient compensation by politicians to homogenous groups of reform losers can fail because each side faces major credibility problems in making promises (of compensation and votes, respectively) to the other side beyond

the current electoral cycle. Rather than dispersing to various occupations, workers in unproductive jobs may therefore prefer to stick together and to rely on their voting power to fight off job threats. Early exit mechanisms, however, faced no such problems. Offered the prospect of becoming abnormal pensioners, threatened workers knew that politicians could not legally reverse individual labor market exit *post hoc* and that they themselves would be joining normal pensioners to form a newly enlarged electoral constituency. They could thus safely leave the “opposition to reforms” game, knowing they had a fighting chance in the new distributional game of “generational politics” (see chapter 6). Moreover, to the extent that average productivity levels in the remaining labor force were sufficiently raised as a result, early labor market exit may even have contained a degree of *economic* efficiency. Assuming positive externalities in the average stock of human capital, Sala-i-Martin (1992) indicates that early retirement policies are economically efficient in periods of rapid skill depreciation (or technological change), when there are huge skills gaps between younger and older cohorts of workers. This may have been the case during post-communist reforms.

To see why leaving the labor force was such an attractive option for many workers, consider the options open to those who were still in jobs but had low chances of sustained employment. The communist-period link between jobs and in-kind welfare benefits was increasingly severed during the transition. For those within the state sector, many of the former job-related welfare benefits were cut. For those obtaining jobs in the private sector, these benefits were never institutionalized.⁴⁰ Thus while jobs were increasingly at risk for many, they simultaneously lost their status as sources of security beyond wages. Abnormal retirement on comparatively generous conditions of replacement (condition (4.2)) and duration (condition (4.3)) was an offer hard to refuse especially to those workers who were most at risk of unemployment. As mentioned, the early exit option was not just self-selective on risk aversion. At a time of fast and widespread economic change, the option also generally reduced individual-level uncertainty as a source of political opposition to reforms (Fernandez and Rodrik, 1991). Early exit presented likely reform losers with a materially reassuring alternative to the option of fighting near-certain redundancy by means of collective action. Deciding to retire guaranteed a monthly pension backed up by electoral clout, at little direct cost and with better opportunities to earn extra money through informal work.

4.5. Conclusions

Pandora's boxes they may have been, but post-communist transitions also left considerable scope for rational government strategy. This chapter has set out a social policy strategy that could preempt disruptive protest movements and enhance political quiescence during the socially costly early 1990s. The particular mechanism spelled out here was evidently not the only way in which post-communist governments could achieve this goal. But I have indicated a number of reasons why "divide and pacify" policies were an attractive road to take. The crux of these policies was to split up well-networked and formally organized groups of threatened workers with similar economic interests, by sending many of them onto unemployment benefits and many others onto early and disability pensions. The unemployed and abnormally retired were now likely to have a lower overall effectiveness in organizing disruptive protests because of decreasing levels of extra-household sociability. In addition, both groups were now likely to be locked in increasing distributional conflicts with each other over scarce state resources, and with jobholders over the cost of sustaining the bloated pay-as-you-go pension systems. The asymmetry between appropriating pre-existing organizations for new protest goals and setting up new protest organizations from scratch in turn indicates the particular effectiveness of divide and pacify status transfers in reducing protests in the early 1990s. From a situation in which new union leaders might have easily appropriated the organizational resources of the old communist unions of tightly networked workers with joint interest, these policies created a new context in which the same workers were split up into different groups with conflicting interests, none of which boasted significant prior organizations. Lastly, the economic need to earn extra income during a period of declining living standards raised the opportunity costs of collective protests for these impoverished groups. Abnormally retired and unemployed people were now more likely to engage in private informal work (silent non-exit) and to express their grievances through more peaceful repertoires (cheap voice), rather than pursuing uncertain collective goods by means of disruptive voice.⁴¹ As a result, the threat of disruption in the polity was substantially reduced. The next chapter will investigate these theoretical propositions by means of an empirical discussion of post-communist social policies.

NOTES

- 1 On political stability in democratic transitions, see Przeworski (1986, 1991), Crawford and Thompson (1994), Sandoval (1998), and Elster et al. (1998, ch.1). On stability and social order more generally, see Hirschman (1973; 1995), Piven and Cloward (1977; 1993; 1997), Tilly (1978), Przeworski (1988), Tarrow (1989; 1998), Elster (1989a), Przeworski et al. (2000), and North (1990; 2005).
- 2 On Britain see King and Wood (1999, 382–383), on Spain see Maravall and Fraile (2001). Similarly, in the first six years following the Revolution of the Carnations in 1974, strike frequency in Portugal stayed muted despite rising unemployment, in part because the first democratic governments postponed privatization of the bloated state sector to ward off more massive lay-offs (Stoleroff, 2001; Torres, 1994).
- 3 Nesporova and Simonyi (1994, 19, 4, table 3, regional maps 1–3). Other examples of regions that were disproportionately affected by transitional unemployment include the north coast of Poland (shipbuilding), the southern parts of Poland (coal mining) and the northern parts of Moravia and Bohemia in the Czech lands (coal mining), and the North-East of Hungary, especially around the town of Ózd (steel production and processing). On regional variations and mismatches in transitional unemployment, see also Boeri (1994, 131), Fretwell and Jackman (1994, 167–168), Milanovic (1995, 21), Boeri et al. (1998), Ham et al. (1998), Baxandall (2004).
- 4 Jeffrey Sachs, writing in *The Economist* on 12 January 1990 (quoted in Greskovits, 1998, 94).
- 5 Cited in Ost (2005, 101).
- 6 Cited in Walton and Seddon (1994, 329).
- 7 See Olson (1965, 2000), Offe and Wiesenthal (1985), Coleman (1990), Marwell and Oliver (1993), Hardin (1995), Vanhuyse (2002a).
- 8 Scruggs and Lange (2001). This is less the case when union membership gives better access to unemployment benefits—the Ghent system. Among the few OECD economies that have experienced significant increases in union density since the 1950s (Denmark, Sweden, Norway and Finland), three are Ghent systems. Belgium, the original Ghent system, also enjoyed high and stable density rates throughout the 1980s (Golden et al., 1999).
- 9 ILO (1994, 35). In Romania, Law 54/1991 on union organization even specified that workers who lost their jobs also lost all union rights and assistance (Kideckel, 2001, 108).
- 10 Having less access to these beneficial side-effects of holding a job is by itself an important cause of the higher rates of anomie, depression and suicides recorded among unemployed people (Argyle, 1993). Unemployment is likely to translate into lesser action tendencies in other spheres of life as well. For instance, compared to most people with formal jobs, the unemployed tend to exercise less self-direction in their leisure time preferences by choosing passive activities (Kohn, 1990) and in dealing with government bodies (Almond and Verba, 1963).
- 11 See Gallie (1994, 130), Gallie et al. (1994, 249–257), and Gallie and Paugam (2000).
- 12 On extra-household sociability, see Gallie et al. (1994, 251–252), on agency, see Geršuny (1994, 217, 219), confirming Jahoda's (1982) and Lane's (1991) thesis. This ef-

fect is especially strong for single people and for men. “Sociability” was tapped by an index measuring the number of different types of people from outside the household involved in a sporting, cultural and social activity, weighted by the frequency of such activities. Jahoda’s “latent functions” of purpose and agency were tapped by an index recording subjects’ answers to questions about knowing what to do with their time, meeting a wide range of people, feeling respected by people, feeling to be useful to others, and feeling responsible most days of the week. See also Kelvin and Jarrett (1985), Fryer and Ullah (1985).

- 13 See Marwell and Oliver (1993), Oberschall (1994), Tarrow (1998), Dixon and Roscigno (2003).
- 14 See Ekiert (1991), Sik (1994), Rose and Haerpfer (1998), Sik and Wellman (1999), Baxandall (2003; 2004). On Russia, see Ashwin (1998) and especially Crowley (1997). On the Hungarian social compact, see Kornai (1996), Róna-Tas (1997), Baxandall (2004). In his notorious “whoever is not against us is for us” speech of 1962, Hungarian First Party Secretary János Kádár proclaimed that “all people who earn their living by work—and do not spend their days and nights plotting and making bombs—go to their jobs in the morning and work; they are actually with us even if this is not a conscious attitude on their part.” On another occasion, a Hungarian Party official went public saying that “eight hours of work a day is one’s duty as a citizen. Design machines, build bridges, drive the tram, heal the sick [...] and then weed your strawberry seedlings, go to the cinema, paint your friend’s flat if that’s what you want to do” (quoted in Baxandall, 2000, 628, 630).
- 15 Opportunity costs can be formally defined as the highest attainable alternative earnings that would be forgone while protesting at any given level of participation. See Vanhuysse (2006).
- 16 Thus an official Politburo document drawn up in February 1980, while hastening to stress that the state sector should be protected above all, argued that it would be a mistake not to take advantage of the private sector “since more than three-quarters of Hungarian families already participated in it.” The document further argued that such a private sector would complement ongoing state sector reforms, for instance by helping to create more small-scale production units and by absorbing frictional unemployment caused by state firm restructuring (Róna-Tas, 1997, 140–141).
- 17 Kornai (1986, 1701–1703), Szalai (1991, 335).
- 18 As Róna-Tas (1997, 145–146) shows, by 1987, there were 17,000 full-time and three times as many part-time participants registered in economic work partnerships, respectively 20,000 and 65,000 in specialized work partnerships, and 4,000 and close to 240,000 in company work partnerships. This would have been the equivalent of 9 percent of the labor force if everyone had registered only once. By 1986, about 4 percent of the labor force participated full-time, and 25 percent part-time, in the old forms of private work by artisans, tradesmen and the like.
- 19 Kornai (1992a, 441). Time-budget data similarly show the scale and speed of the redirection towards private and informal activities during late communism. Between 1977 and 1986 the total working time spent in workplaces of the first economy decreased by 7 percent, while the time spent on small-scale agricultural production and informal house building activities increased by respectively 9 and 40 percent. For persons out of the labor force—a majority among them being pensioners—time spent on small-scale

- agricultural production and on house building went up by respectively 80 and 136 percent (Szalai, 1991, 336–337).
- 20 In fact, citizens were deprived of the means to obtain these benefits otherwise, since there were no alternative markets for them. Moreover, communist governments deliberately set take-home pay at levels such that households “would be incapable of paying for the products and services they receive in kind. In the terminology of the official ideology, the state “grants” housing, vacations and medical care” (Kornai, 1992a, 225).
 - 21 Róna-Tas (1997, 147). Moreover, entrepreneurs were required to be physically engaged during working hours. In none of the four new forms of private partnerships was it permitted to participate by *not* working, for instance through capital investment.
 - 22 See Granovetter (1973), Coleman (1990, ch.12), Smith-Doer and Powell (2005).
 - 23 See, for instance, Garton Ash (1989, 1990). Garton Ash (1998) offers a telling personal account of the working of the DDR information services, and Wästberg et al. (1986) list 15 repressive actions by the state in politically liberalizing Hungary between November 1985 and April 1986.
 - 24 Völker and Flap (2001, 412), who argue on similar grounds that communist citizens had strong incentives to establish a functional division of labor between strong ties (used for talking politics) and weak ties (used for providing them with short-supply goods).
 - 25 Rose (1994, 22). While black markets in Poland and Czechoslovakia were also widespread, workers in these countries had fewer *legal* opportunities to earn extra income in the private sector or satisfy their demand for goods in short supply. For instance, Poland still tightly rationed the supply of a long list of basic goods, including coffee, butter, milk, flour, rice, sugar, chocolate, gasoline and soap (Kornai, 1992a, 242).
 - 26 Andrews and Rashid (1996, 35), Kornai (1992b). From April 1992, 31 percent of gross wages were taxed away as pensions contributions in Hungary (with employees paying one-fifth and employers four-fifths), but a further 24 percent were taxed as health fund contributions. In Poland, social security contributions were to be paid entirely by employers, and the rate had increased threefold in the preceding twelve years (Nelson, 2001, 239fn.5; Cain and Surdej, 1999, 148).
 - 27 Computed from Micklewright (1992, 17). Micklewright (p. 16) reports that (a) around 60 percent of Hungarian households had a small agricultural plot, (b) in 36 percent of households at least one individual had income from a second job, and (c) 12 percent of households reported “invisible” income from tips, illegal jobs and the like. According to another estimate, the share of illegal private activity in Hungarian GDP increased from 15 percent in 1980 to around 20 percent in 1987, and almost doubled in the two years thereafter (Róna-Tas, 1997, 146, 153). For discussion of the informal economy see also Rose (1992), Sik (1994), Johnson et al. (1997), Lackó (1998), Sik and Tóth (1999), Sik and Wellman (1999).
 - 28 See also Sik and Tóth (1999). Rose (1992, 18) reports that in 1991 the proportion of Polish households who reported that one or more of its members worked in the (legal) official economy was as high (81 percent) as that of households engaging in household production. Moreover, 33 percent of households reported that one or more of their members engaged in illegal activity by working in the second economy. Another study shows that by June 1994, 30 percent of Poles surveyed had “undeclared” additional employment, topping-up their income by one-seventh on average (Ekiert and Kubik,

- 1999, 67). Whereas Crowley (2004, 417) argues that intra-regional variation is not fully consistent with the Greskovits thesis, I emphasize that the striking region-wide stability (or increase) in the size of the informal economy after 1989 corroborates the Greskovits thesis.
- 29 Zagorski (1999, 9). When asked “whether they would participate in political demonstrations and protests,” a crushing majority (63 percent) of Bulgarian survey respondents answered “no” and a further 30 percent thought it “very unlikely,” compared to 5 percent thinking it “most probable” and 2 percent answering “for sure” (Zakharieva 1999, 8).
 - 30 For instance, the number of hours of work required in order to purchase a unit of white bread in 1988 in Hungary, Poland and Czechoslovakia was half that required in West Germany. By contrast, communist needed to work respectively 3.5, 2.8 and 4.7 times longer than West Germans to buy chicken, 4, 13.4 and 6.6 times longer for color TVs; 2.3, 9.2 and 2.5 times longer for cars; and 5.7, 5 and 7 times longer for gasoline (Kornai, 1992a, 309–310, table 13.5).
 - 31 In the late 1980s, the average length of time spent on a waiting list for public housing was four to six years in Hungary, fifteen to thirty years in Poland, and six to eight years in Czechoslovakia (Kornai, 1992a, 234). Households reacted by altogether avoiding to rely on this bureaucratic allocation process and by relying instead on informal construction through own labor and that of local social ties. For instance, three-quarters of all new flats that were built in Hungary between 1971 and 1985 were built exclusively by family efforts. In the latter year, 81 percent of all financial resources spent on housing were covered by private households, mainly through their informal economy earnings (Szalai, 1991, 334). Sik and Wellman (1999, 225) argue that (a) people under communism relied on network capital to a *greater* extent than people in developed countries in Western Europe and Northern America, and that (b) they relied on such networks to a *still greater* extent under post-communism than they did under communism.
 - 32 Rose and Haerpfer (1992, 87). Polish household combined on average three or four different sorts of economic activities with different degrees of legality (Rose, 1992, 18).
 - 33 Gallie et al. (2001, 48), Gallie et al. (1994, 255–57). See also Wellman and Gulia (2000, 97–101), and Gallie and Paugam (2000). Even in more prosperous Western democracies, unemployment is highly correlated with deprivation of a wide range of life-style items (Whelan and McGinnity, 2000, 295).
 - 34 On the material cost of ideological commitment, see North (1981), Popkin (1979; 1988), Vanhuyse (2006). For a similar argument in the case of Portuguese workers in the 1980s, see Stoleroff (2001). On free-riding in collective goods provision, see Olson (1965, 2000), Taylor (1988a), Coleman (1990), Vanhuyse (2006).
 - 35 Even assuming that the unemployed and the pensioners had comparatively less access to informal earning opportunities (Baxandall, 2003; 2004), their adverse social network characteristics (combined with increasing distributional conflicts) are likely to have sufficiently reduced their mobilization capacity. Second, their immediate concern for day-to-day economic survival is likely to have necessitated an emphasis on individual coping strategies, rather than collective action.
 - 36 On political mechanisms of exit and voice, see Hirschman (1970; 1986b; 1993), Barry (1974), Greskovits (1998), Vanhuyse (2006).

- 37 For instance, investigating over 25,000 citizens across twelve European nations, Anderson (2001) found that, compared to employed citizens, the unemployed recorded significantly lower levels of life satisfaction and of democracy satisfaction in all twelve cases, and significantly lower levels of political interest and of voter turnout in eleven cases out of twelve.
- 38 On grievance sharing and interest identity as determinants of protest movements, see Offe and Wieselthaler (1985), Hardin (1995), Tarrow (1998), and Dixon and Roscigno (2003). Bagguley (1992) argues that locally administered welfare relief programs in 1980s Britain reduced the organizational resources of the unemployed for collective action and made them more quiescent than in the 1930s. Baxandall (2002; 2003; 2004) proposes that by manipulating the political “meaning” of unemployment, governments affected political *attitudes*. Thus Baxandall claims that unemployment “disappeared” as a political factor after communism because the distinction between employment and unemployment was “blurred” as a result of communist informal work legacies and the post-communist emphasis on entrepreneurship as the new “benchmark” and “frame” of success. The present theory focuses more heavily on political *action* capacities, rather than meanings, framing, and attitudes. I emphasize how specific social policies changed particular constellations of material incentives and social ties among threatened workers, thereby channeling the political *expression* of unemployment grievances (which, in my view, never disappeared) towards non-disruptive means.
- 39 Moreover, for workers who were close to becoming eligible for *early* retirement there was the extra option of first going on unemployment benefits and later transferring to pensioner status.
- 40 Asked in 1994 whether their jobs “gave them good fringe (welfare and social) benefits,” 23 percent of state sector workers in Poland replied that this was the case “always or often” and 23 percent that it was the case “seldom or never,” compared to respectively 4 percent and 76 percent of private sector workers (Zagorski, 1999, 6).
- 41 Except for East Germans (Hirschman, 1993), true “exit” was largely impossible for post-communist citizens. But not entirely: in addition to many students moving abroad, thousands of Central Europeans, especially Poles, went to work in the informal economies of *Western* Europe. In spring 2005, “the Polish plumber” even turned into a topic of heated public debate in the run-up to the French and Dutch refusals by referendum of the European Constitution.

CHAPTER 5

The Great Abnormal Pensioner Booms

Strategic Social Policies in Practice

“Policy is produced by human actors who are not merely driven by natural impulses or by the compulsion of external factors. Instead, public policies are the outcomes—under external constraints—of *intentional action*.”

Fritz Scharpf (1997, 19)

How have post-communist governments allocated their scarce resources towards different social groups? In keeping with Taylor’s (1988a) emphasis that we need both individualist explanations of structures and other macro-phenomena and structuralist explanations of individual attitudes and beliefs, I have indicated how governments could reduce disruptive protests by splitting up selected groups of threatened workers into different work–welfare categories. This chapter discusses stylized evidence from Hungary, Poland, and the Czech Republic.¹ The aim is to draw together a number of indicators that concisely capture state social policies towards various work–welfare groups. These indicators can be used to check whether behind the messy empirics of transition more systematic political mechanisms can be detected. I compare policies towards the unemployed, young families, and pensioners and show how pensioner favoring policies have led to dramatic increases in the number of non-elderly pensioners in Hungary and Poland, amounting to a Great Abnormal Pensioner Booms.

5.1. The unemployed: Divided first, squeezed later

Unemployment benefit programs in post-communist Central Europe evolved in two phases.² Initially, comparatively generous programs were provided. But in subsequent years they were progressively, often radically, tightened. As table 5.1 shows, between 1991 and 1995 unemployment benefit replacement rates (u) have been reduced for all duration spells. Governments have also made cuts in other program parameters. New ceilings were imposed on the maximum level of benefits that could be paid out in Hungary and the Czech Republic. The minimum level of benefits was reduced in Hungary and abolished in Poland. In Hungary, the real value of per capita unemployment benefits eroded in three years' time to less than half of their 1992 levels (Ferge, 2001). By April 1993, the average benefit was 9,500 HUF. This was well below the minimum subsistence level for a family of four, at 12,500 HUF per head in villages and 13,000 HUF in towns (Nesporova and Simonyi, 1994, 15). Overall, this amounts to a severe tightening of the unemployment benefit system, not least by international standards.³

Table 5.1. Selected unemployment policy parameters in Hungary, Poland and the Czech Republic, 1991 and 1995

		Max. duration (months)	Benefit minima (% of min. wage)	Benefit maxima (% of min. wage)	u first 3 months (%)	u first year (%)	u second year (%)	Cov- erage Rate
Hungary	Dec 1991	24	100	None	75	59	34	80
	Dec 1995	12	70	150	58	51	0	40
Poland	Dec 1991	Open- ended	100	Average wage	70	53	40	75
	Dec 1995	12	None	None	45	45	0	55
Czech R	Dec 1991	12	None	None	65	58	0	72
	Dec 1995	6	None	150	60	30	0	48

Notes: u = gross benefit income in unemployment as a percentage of gross wages in previous employment; rates average those of two unemployed, aged 40, who have been working at the average wage continuously since age 18 with no interruptions and who

were earning, respectively, the average wage and two-thirds of the average wage. In Hungary, benefit minima and maxima figures refer to relativities between benefit floors and ceilings and the minimum wage in 1995. Unemployed people who were previously earning less than the benefit minima are entitled to 100 percent of the previous earnings. Coverage rate = unemployment benefit recipients as a percentage of registered unemployment. Source: Boeri (1997a, 130, table 2).

Between the early and the mid-1990s, the maximum duration of unemployment benefit entitlements was halved in Hungary and the Czech Republic and was more strongly reduced still in Poland. As a result, coverage rates have gone down drastically. By the end of 1995, only 40 percent of Hungarians and roughly half of Poles and Czechs who were registered as unemployed actually received any benefits. Neither early pensions nor disability pensions were subject to similar duration limits. Thus, condition (4.3), that entitlement periods for abnormal pensions (y) exceed those for unemployment benefits (x), applies. The incentives enabling divide and pacify policies to split up relatively homogenous groups of workers into different work-welfare categories were therefore in place. The theory also offers an alternative interpretation for what economists have referred to as the “poor design from scratch” of post-communist unemployment benefits. Commenting on the initial generosity and the subsequent tightening of unemployment programs, Boeri (1997a; 2003) remarks that ostensibly competent politicians “unwisely” implemented a policy sequence that “should have been the other way around,” especially since in the absence of pre-existing entitlements there were no powerful political constituencies to oppose a “better” design. But viewed from a political economy angle, an overriding objective for politicians was to ensure that threatened workers were divided *early on*. Once this was achieved through relatively generous benefits, the threat of disruptive protests was likely to be reduced by adverse social network effects and distributional conflicts. Politicians could then safely retrench unemployment benefits, at little political risk.

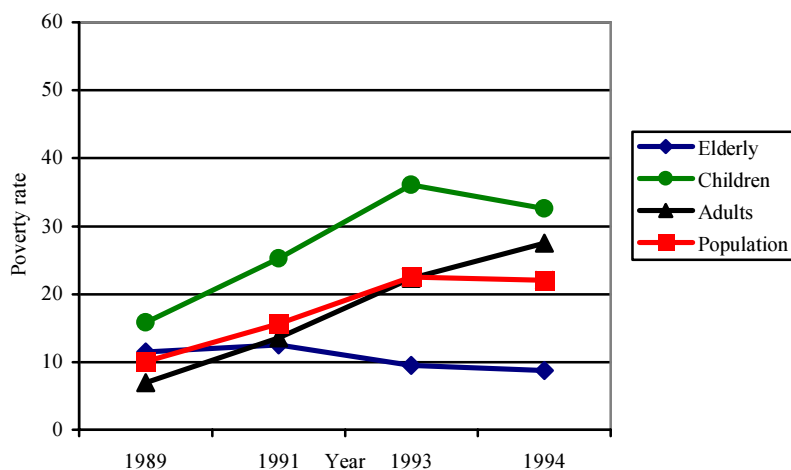
The theory also accounts for another observation about post-communist unemployment benefit programs. While benefits were generally meager, the more senior workers were nevertheless targeted by better-than-average incentives to leave the workplace. Senior workers were a larger political threat in transition, as these workers tend to be especially likely to mobilize for strikes (Golden, 1997; Dixon and Roscigno, 2003). In the absence of universal seniority rules to protect this subset of work-

ers from dismissals, divide and pacify offered a strategic alternative. Senior workers could now either retire abnormally—a natural seniority principle—or become unemployed with severance pay determined, again, according to seniority. The Polish Act on Dismissals of December 1989 stated that redundancy payments should amount to one month's pay if the employee had been employed for less than ten years in the job, two months' pay if employed for up to twenty years, and three months' pay if employed for longer. In Hungary, an amendment to the Labor Code was adopted in 1991 to make severance pay mandatory if dismissals were caused by economic rather than disciplinary reasons, with the amount ranging from one month's salary for those employed between three and five years to sixteen months' salary for those employed for more than 25 years.⁴

5.2. Pensioner policies: The wheel of fortune reversed

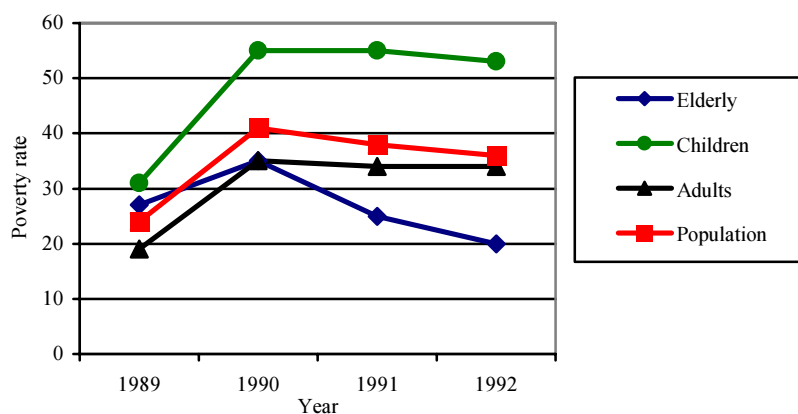
In late communism, pensioners, especially the elderly, used to be among the most poverty-struck social groups. In Hungary, the poverty rate among persons in inactive households in 1977 exceeded that of active households by a large margin. While falling afterwards, it became lower than that of active households only in 1987. In Czechoslovakia and Poland, during most of the 1980s, pensioners were consistently more poverty-prone than workers and farmers.⁵ For instance, during every single year between 1978 and 1988, Polish pensioners recorded higher absolute poverty rates than workers, worker–farmers, or farmers. On average, 30 percent of pensioners counted as poor, compared to 15 percent of workers, 12 percent of worker–farmers, and 20 percent of farmers.⁶ At the start of the transition, the prospects for the elderly appeared to be less rosy still. Compared to working-age people, they were more vulnerable economically, since they had fewer means to adapt their skills and income-generating activities to the new market environment. However, figures 5.1 to 5.3 disconfirm any hypothesis that pensioners would become a highly poverty-prone group in the early 1990s.

Figure 5.1. Incidence of relative poverty for various age categories in Hungary, 1989, 1991, 1993, 1994



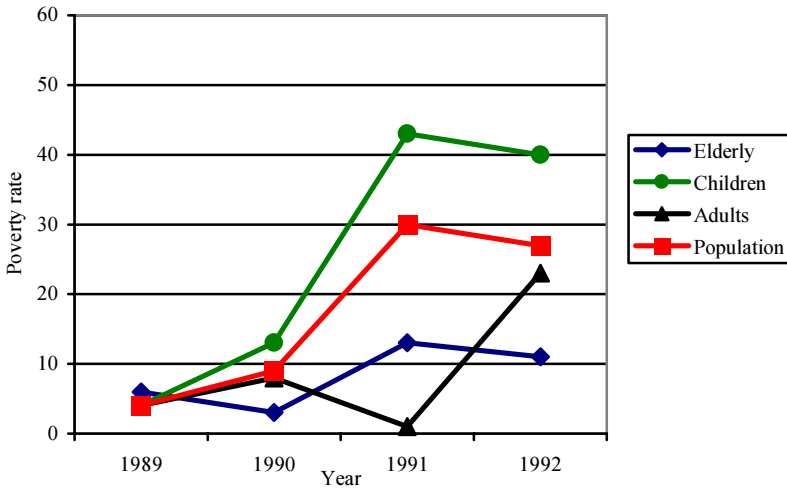
Note: Poverty threshold = 40 percent of the average wage. Data for 1990 and 1992 were not available. Source: adapted from UNICEF (1997, 24, table II.1).

Figure 5.2. Incidence of relative poverty for various age categories in Poland, 1989–1992



Note: Poverty threshold = 40 percent of the average wage. Source: adapted from UNICEF (1997, 24, table II.1).

Figure 5.3. Incidence of relative poverty for various age categories in the Czech Republic, 1989–1992



Note: Poverty threshold = 35 percent of the average wage. Source: adapted from UNICEF (1997, 24, table II.1).

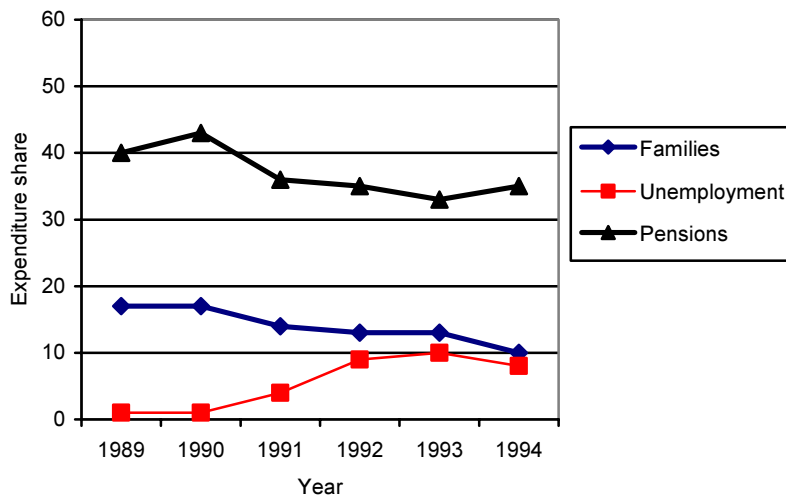
While these data do not allow cross-country comparison, they reveal a remarkable trend within each country. Changes in poverty incidence have been strikingly beneficial for the elderly when compared to children, adults, and the total population average. A few years into transition, pensioners recorded significantly lower poverty rates than all three other groups in all three countries. This is all the more noteworthy since in 1989 the incidence of relative poverty among the elderly was still higher than the total population average in every case. In Hungary and Poland, the trends for the elderly (decreasing incidence) go in exactly the opposite direction as for all three other categories (increasing incidence). Other studies reach similar conclusions. Between 1987 and 1996, relative poverty in the population went up from 16 to 22 percent in Hungary and it decreased slightly from 24 to 22 percent in Poland. But among pensioners, poverty almost *halved* in the same period, to reach respectively 14 and 11 percent.⁷ Between 1989 and 1991, real income decreased by one-third for Polish workers, by over 40 percent for mixed farmer–worker households and by more than half for farmer households, but by only 12

percent for pensioners. The share of children below six living in poor households jumped up from 18 to over 50 percent. Absolute poverty increased from 16 to 38 percent among Polish worker households, from 8 to 21 percent among mixed farmer–worker households, and from 17 to almost 40 percent among farmer households.⁸

Pensioner poverty outcomes compare favorably also with those of the unemployed. In 1993, absolute poverty rates of households where at least one member was unemployed were between two-and-a-half and four times higher than the country average in Hungary and Poland (Milanovic, 1994, 2). Using the national social minimum as poverty cut-off, 56 percent of the unemployed in Hungary were poor in 1994, compared to 16 percent of old age pensioners. In Poland in 1996, 80 percent of the unemployed were poor, compared to 37 percent of old age and disability pensioners (Adam, 1999, 166). All in all, this amounts to a remarkable reversal of the economic fortunes of pensioners after 1989. But what explains this outcome? Social spending priorities by governments were especially crucial as rising social needs resulting from higher poverty and unemployment and falling incomes combined with declining tax revenues due to output collapse and lower tax collection.⁹ Figures 5.4 to 5.6 indicate the relative share within the total welfare state budget of three programs destined, roughly, for three distinct age groups.

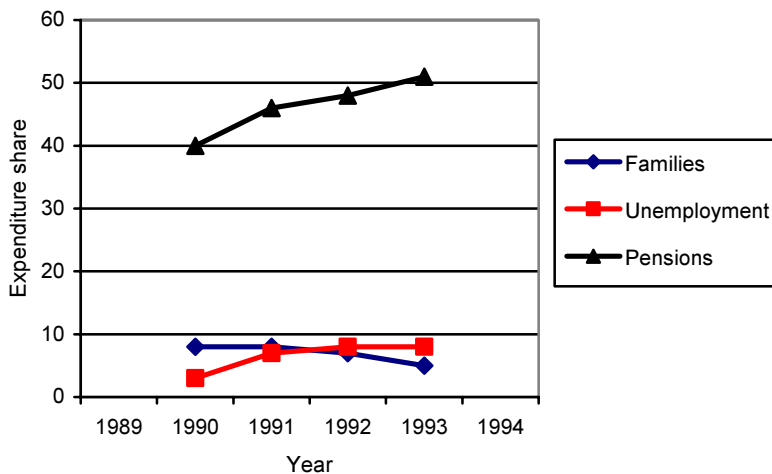
In the Czech Republic, the share of family and maternity allowances within the total social budget remained stable at a comparatively high level, while that of pensions decreased slightly to reach a comparatively low level by 1994. Hungary and Poland followed different paths. The Hungarian “pensioners share” decreased slightly to stabilize around 35 percent, but the “families share” decreased by 7 percentage points. In Poland, the families share, already lower than elsewhere, decreased further. But the pensioners share actually shot up by more than a quarter, to absorb more than half of the total welfare budget in 1993.¹⁰ Figure 5.7 presents yearly pension expenditures per person aged above 60 as divided by GDP per capita. This gives a rough indication of changes in expenditures when controlled for potential changes in the number of elderly people (social needs).

Figure 5.4. Aggregate spending on family and maternity allowances (Families), unemployment benefits and poverty assistance (Unemployment) and pensions (Pensions) as a percentage of the total welfare state budget in Hungary, 1989–1994



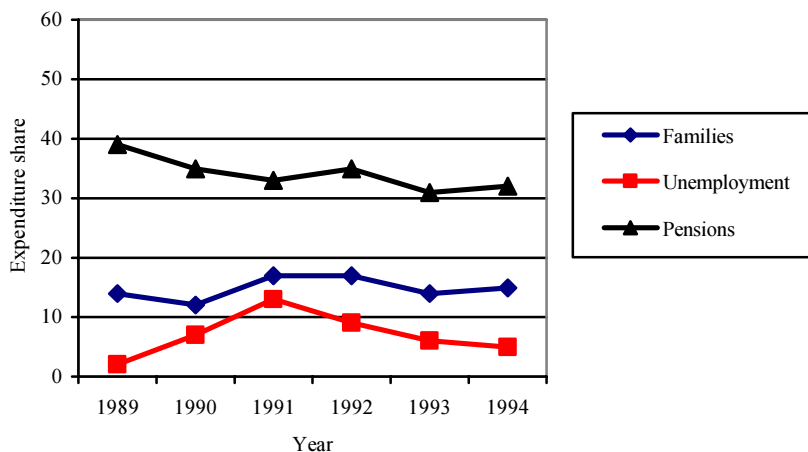
Source: Computed from UNICEF (1997, 135–137, tables 3, 6, 7, 8).

Figure 5.5. Aggregate spending on family and maternity allowances (Families), unemployment benefits and poverty assistance (Unemployment) and pensions (Pensions) as a percentage of the total welfare state budget in Poland, 1989–1994



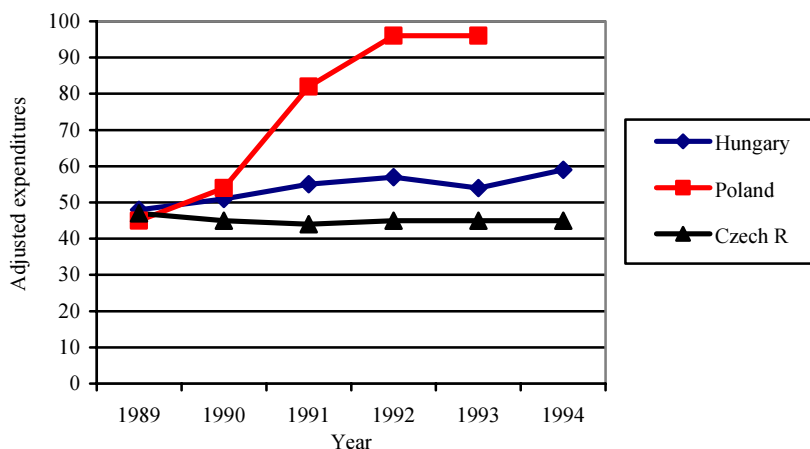
Source: Computed from UNICEF (1997, 135–137, tables 3, 6, 7, 8).

Figure 5.6. Aggregate spending on family and maternity allowances (Families), unemployment benefits and poverty assistance (Unemployment) and pensions (Pensions) as a percentage of the total welfare state budget in the Czech Republic, 1989–1994



Source: Computed from UNICEF (1997, 135–137, tables 3, 6, 7, 8).

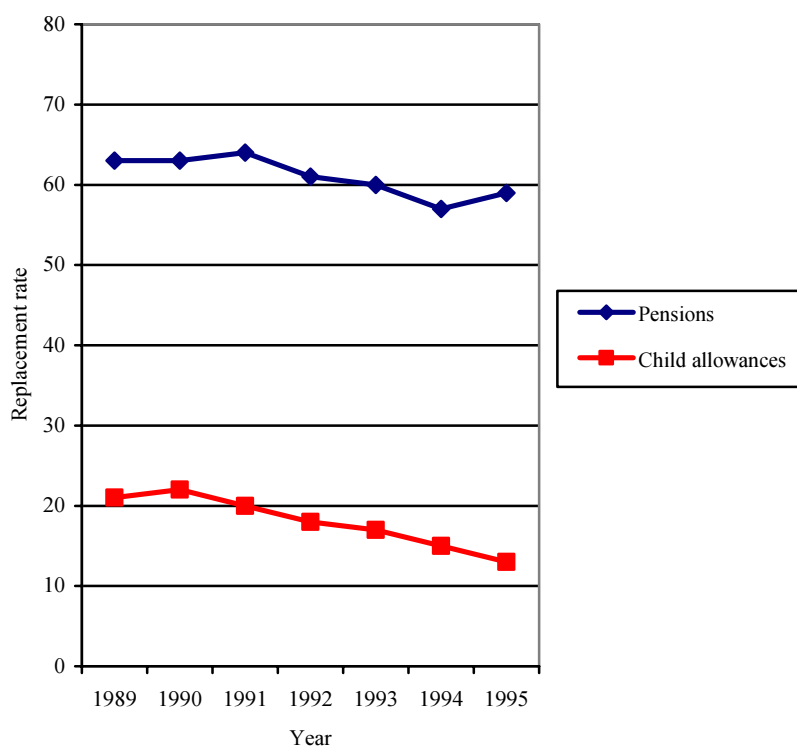
Figure 5.7. Yearly pension expenditures, standardized for the size of the population aged over 60, in Hungary, Poland and the Czech Republic, 1989–1994



Note: These rates were calculated with the following formula: $100 * [(pension\ expenditures / population\ aged\ over\ 60) / (GDP / total\ population)]$, or, equivalently, $100 * [(pension\ expenditures / GDP) / (population\ aged\ over\ 60 / total\ population)]$. Source: own calculations based on UNICEF (1997, 125, table A.7, 137, table D.8).

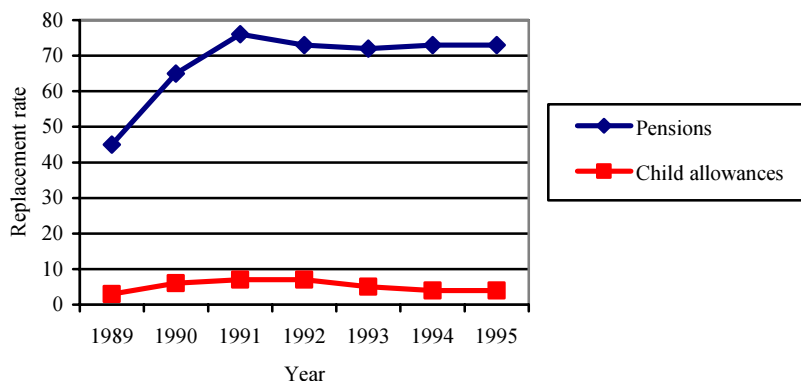
In the Czech Republic, pensions expenditures, thus standardized, have remained virtually constant between 1989 and 1994. But they have increased by over twenty percent in Hungary and over one hundred percent in Poland. Pension spending in the latter two countries appears to have increased over and above the amount required to compensate for the rise in the number of *elderly* people.¹¹ Figures 5.8 to 5.10 in turn show average replacement rates for old age pensions and child allowances.

Figure 5.8. Replacement rates for old age pensions and child allowances in Hungary, 1989–1995



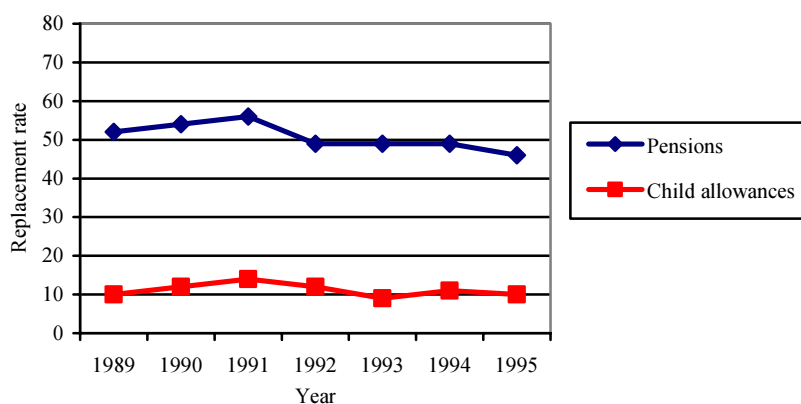
Notes: Pension replacement rate = average monthly own-right old age pension as a percentage of average net wage. Child replacement rate = yearly average per child allowance of a two-child couple (or the most typical group of recipients) as a percentage of average net wage. Source: UNICEF (1997, 142, table E.5, 143, table E.7).

Figure 5.9. Replacement rates for old age pensions and child allowances in Poland, 1989–1995



Notes: Pension replacement rate = average monthly own-right old age pension as a percentage of average net wage. Child replacement rate = yearly average per child allowance of a two-child couple (or the most typical group of recipients) as a percentage of average net wage. Source: UNICEF (1997, 142, table E.5, 143, table E.7).

Figure 5.10. Replacement rates for old age pensions and child allowances in the Czech Republic, 1989–1995



Notes: Pension replacement rate = average monthly own-right old age pension as a percentage of average gross wage. Child replacement rate = yearly average per child allowance of a two-child couple (or the most typical group of recipients) as a percentage of average gross wage. Separate child compensations have been included. Source: UNICEF (1997, 142, table E.5, 143, table E.7).

In the Czech Republic, replacement rates for both programs remained stable. Replacement rates for pensions decreased slightly in Hungary, whereas they increased by almost three quarters in Poland. The big leap in Poland in 1990 was due to an early new policy to index pensions, which almost single-handedly reversed the relative welfare of pensioners. Afterwards, the relative stability of pension replacement rates in Hungary and Poland was due in part to the governments' choice to index pensions, unlike other welfare benefits, on the basis of the growth in average net wages. More generally, post-communist welfare benefits were badly protected against inflation in the 1990s, with one notable exception—pensions.¹² Replacement rates for child allowances went down by 40 percent in Hungary, while in Poland they stabilized at low levels. Again, this marked a strong reversal of past policies. Under communism, child allowances had been very generous by international standards in terms of replacement, duration, and coverage.¹³

Table 5.2. Replacement rates for unemployment benefits (u) and old age pensions (p) and π values in Hungary, Poland and the Czech Republic in 1991 and 1995

	1991			1995		
	U	P	π	U	p	π
Poland	53 %	76 %	0.70	45 %	73 %	0.62
Hungary	59 %	64 %	0.92	51 %	60 %	0.85
Czech R	58 %	56 %	1.03	30 %	46 %	0.65

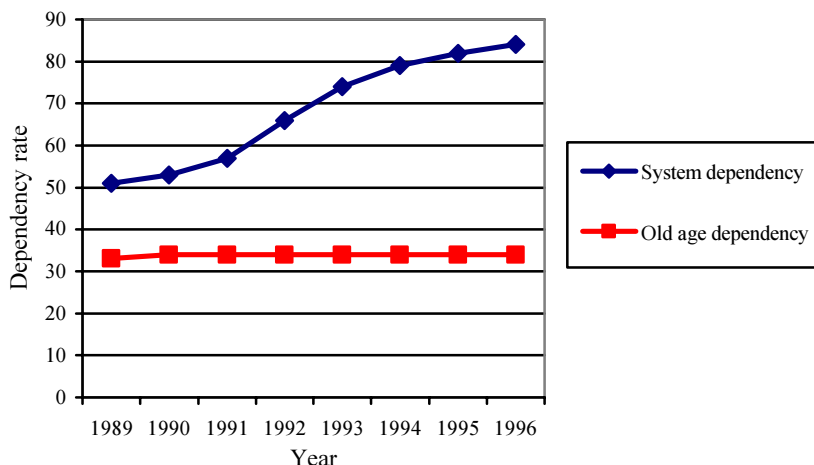
Specifically, the argument developed in chapter 4 implied that replacement rates for unemployment benefits should be only a fraction $\pi < 1$ of those for pensions. Table 5.2 above presents an estimation of these π values based the replacement rates for first-year unemployment presented in table 5.1 and the replacement rates for pensions presented in Figures 5.8 to 5.10.¹⁴ Condition (4.2) applies—most strikingly in the Polish case. Except for the Czech Republic in 1991, replacement rates for unemployment benefits were lower than those for pensions in all three countries. In sum, pensioners' economic welfare kept up with workers in transition, while jumping ahead of other welfare groups and younger age cohorts.

5.3. Divide and pacify in action: The post-communist pensioner booms

By the start of the 1990s, most advanced industrialized democracies in the Western world were coping with rapidly worsening problems of aging populations and deteriorating national welfare finances. For instance, between 1960 and 1990, the ratio of persons over 64 divided by persons aged 15–64 increased from 16 to 24 percent in the social democratic welfare regimes, from 17 to 21 percent in the conservative–corporatist regimes, and from 16 to 19 percent in the liberal regimes.¹⁵ By contrast, Central European countries remained somewhat more sheltered from immediate aging problems throughout the early 1990s, although problems were expected to aggravate in the subsequent decade. Between 1989 and 1996, the proportion of 60-plussers to persons aged 18–59 remained stable in Hungary and the Czech Republic and increased slightly in Poland. In the absence of a demographically-induced need for major expenditure increases, one might expect pension system dependency rates to have remained stable. Figures 5.11 to 5.13, however, paint a dramatically different picture.

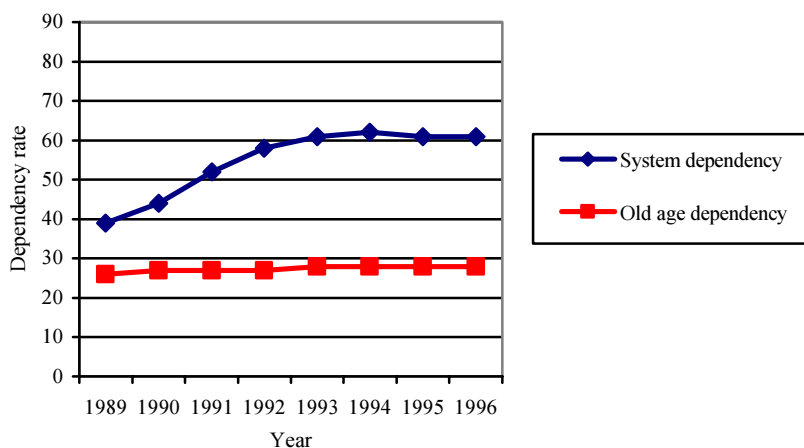
In the Czech Republic, the pension system dependency rate went up by 6 percentage points. But it increased by one-fifth in Poland and by one-third in Hungary, where it reached 84 percent—one of the highest rates in the entire world. For comparison, the average system dependency rate in 1994 in the OECD world was around 38 percent (Boeri et al., 1998, 16). Four main causal factors stand out for this remarkable jump.¹⁶ First, there was substantial evasion of payroll taxes. Second, the number of contributors decreased due to the surge in unemployment and a significant decrease in labor market participation. Third, easy eligibility conditions for disability benefits, a legacy of communism, were greatly extended in the early 1990s. Fourth, there was a massive increase in the number of people going into early retirement. The latter two categories are jointly captured by what I termed abnormal retirement in chapter 4. Figure 5.14 indicates the evolution in the first component of this abnormal pensioner boom: the growth of disability pensioners between 1989 and 1996.¹⁷

Figure 5.11. Pension system dependency and old age dependency rates in Hungary, 1989–1996



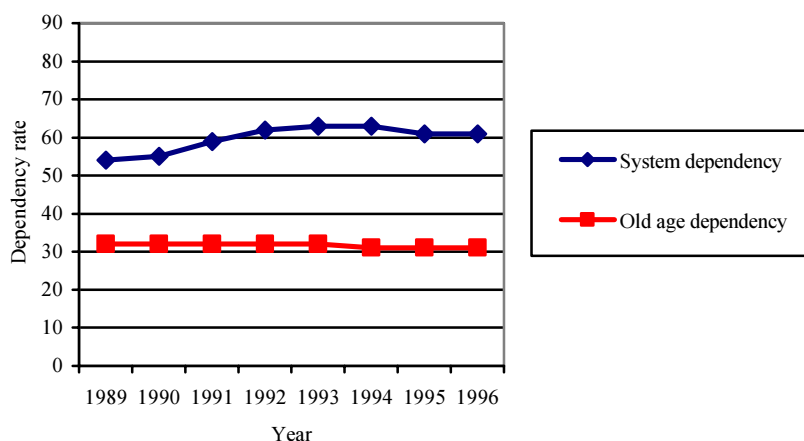
Notes: System dependency = pensioners as a percentage of contributors–employees. Old age dependency = population aged over 60 divided by population aged between 18 and 59. Sources: Adapted from Schrooten et al. (1999, 281, table 1) for system dependency rates and UNICEF (1999, 112, table 1.6) for old age dependency rates.

Figure 5.12. Pension system dependency and old age dependency rates in Poland, 1989–1996



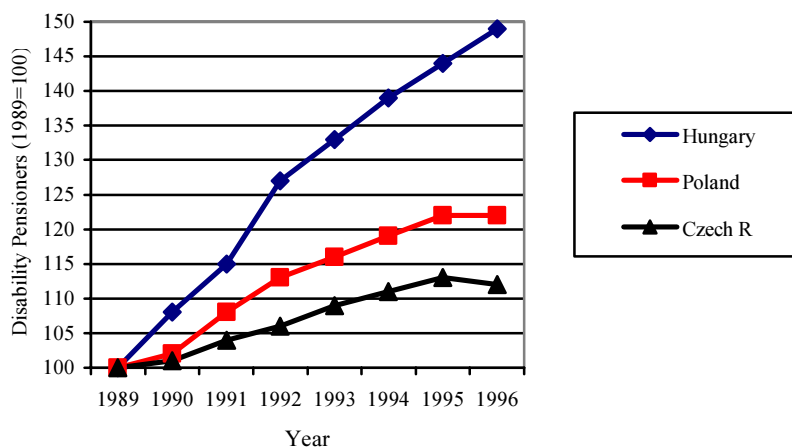
Sources: Adapted from Schrooten et al. (1999, 281, table 1) for system dependency rates and UNICEF (1999, 112, table 1.6) for old age dependency rates.

Figure 5.13. Pension system dependency and old age dependency rates in the Czech Republic, 1989–1996



Sources: Adapted from Schrooten et al. (1999, 281, table 1), for system dependency rates and UNICEF (1999, 112, table 1.6) for old age dependency rates.

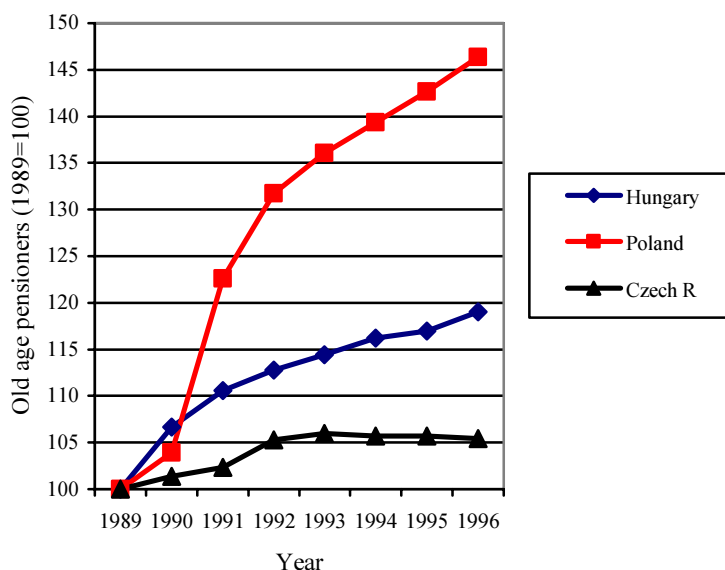
Figure 5.14. The growth in the numbers of disability pensioners in Hungary, Poland and the Czech Republic, 1989–1996



Source: Computed from Schrooten et al. (1999, 281, table 1).

The number of disability pensioners increased by 11 percent in the Czech Republic, by 22 percent in Poland and by a staggering 49 percent in Hungary. Underlying these figures are radical shifts in the lives of hundreds of thousands of Hungarians and Poles. In barely seven years 55,000 Czechs, 278,000 Hungarians and 475,000 Poles newly retired on disability pensions. Not by any stretch of the imagination could one believe that more than a fraction of this boom corresponds to an increase in genuine disability cases. Reducing the political threat posed by threatened workers is a more plausible explanation of these data. In fact, not just was there a strong closeness of fit between unemployment levels and new disability pensioners at the regional level in Hungary between 1990 and 1993. The closeness of fit actually increased as regional unemployment became more of a political threat, and it decreased as unemployment levels went down (Baxandall, 2004, 133–134). Figure 5.15 indicates the evolution of the second component of abnormal pensioner creation—the growth in the number of old age pensioners.

Figure 5.15. The growth in the numbers of old age pensioners in Hungary, Poland and the Czech Republic, 1989–1996



Source: Computed from Schrooten et al. (1999, 281, table 1).

Hungary and Poland have employed different strategies to withdraw workers from the labor market. The preferred mechanism was disability retirement in Hungary, and early retirement in Poland. Between 1989 and 1996 the number of old age pensioners increased by 5 percent in the Czech Republic, by 20 percent in Hungary and by 46 percent in Poland.¹⁸ In absolute numbers, 93,000 Czechs went on old age retirement in this period, compared to 261,000 Hungarians and 1,049,000 Poles.¹⁹ The Polish figures cover only the main pension scheme (ZUS). But entire professional categories were covered by other, separate pensions systems. For instance, the uniformed services (policemen, soldiers and prison guards) received pensions—typically more generous ones than those paid out by ZUS—directly from their respective ministries, without paying contributions at all (Müller, 1999, 99).

Between 1989 and 1996, an estimated 506,000 persons retired abnormally in Hungary, and 934,000 persons in Poland, half of which were in 1991 alone.²⁰ Keeping in mind the virtual demographic standstill in these seven years, it is hard to overestimate the significance of this perturbation of the work–welfare composition of society. These developments can be aptly labeled Great Abnormal Pensioner Booms. In the early 1990s, the average actual retirement age in Poland stood at 59 for men and at 55 for women, respectively six and five years below the official retirement age (Szulc, 2000, 106). By 1997, the average actual retirement age had gone down by a further year for men and women alike. In fact, 10 percent of all men and 37 percent of all women who were granted an old age pension that year were younger than 55.²¹ In Hungary, in 1994 the average actual retirement age stood at 54 for men and 52.7 for women, respectively six and two years below the official retirement age (Ferge, 1999, 234).

Of course, the idea of sending (soon-to-be) redundant workers on “abnormal” pensions was neither novel in, nor specific to, the post-communist context. The number of Hungarians opting for an early labor market exit had been growing throughout the 1980s. But communist governments, faced with chronic labor shortages, provided fewer explicit incentives for such early exit.²² Neither was the early exit template specific to post-communist Central Europe. In the decades following the Second World War, a number of advanced industrial democracies, especially in continental Western Europe and southern Europe, similarly opted for early retirement as a strategy for labor force reduction. But there, early exit evolved as a gradual process over a number of decades, rather than in

just a few years.²³ What made the abnormal pensioner booms in post-communist Hungary and Poland so remarkable was not so much the particular template used. Rather, it was the unprecedented speed and scale with which the template was used in these countries between 1989 and 1996.²⁴

Farmers are another group identified in chapter 3 as a likely threat to peace in the polity. Confronted with a group that was at the same time sizable, hard hit by reforms, and potentially effective in organizing protests, governments had strong reasons to try and split up this group through divide and pacify policies. This helps to explain the decision of the Polish government to set up an entirely separate pay-as-you-go pensions system for farmers only, KRUS. As early as 1990, the Mazowiecki government adopted new laws that relaxed pension eligibility criteria for farmers and exempted them from general pension contribution rules (Cain and Surdey, 1999, 162). And in line with the boom in numbers in the main Polish pension system ZUS, the number of KRUS pensioners also increased dramatically in the early 1990s. While in 1990, around one and a half million Poles drew a farmers' pension, five years later their number had increased by more than a third to exceed two million.²⁵

Consider furthermore the evolution of the contributions paid into KRUS by farmers and governments (Schrooten et al., 1999, 283). Between 1989 and 1996, the payments which current farmers—contributors were required to make to KRUS remained relatively stable at between 0.1 and 0.2 percent of GDP. Following the logic of pay-as-you-go systems, the money available to pay out current KRUS pensions would either have had to be divided over the rapidly increasing number of farmer—pensioners (resulting in lower individual pensions), or would have had to be topped up from other sources. Successive Polish governments have opted decisively for the second path.²⁶ General government budget contributions to KRUS, which stood at 0.9 percent of GDP before transition, reached 2 percent by 1992 and 2.2 percent in 1996; a 145 percent increase compared to 1989 levels. This peculiar state of affairs made KRUS a pay-as-you-go pension system only in appearance. From the start, workers were required to finance only one-third of total contributions to their own pension fund, while the state covered two-thirds. Yet despite the boom in KRUS pensioners in subsequent years, workers' contributions actually went down to 10 percent, with state subsidies covering 90 percent of all contributions.²⁷ The diminishing group of farmer—workers was exempted from paying higher contributions, and yet the growing

constituency of farmer–pensioners was exempted from corollary cuts in their benefits. The government budget—that is, other groups in society—picked up the bill. And when from 1997 onwards thorough reforms were implemented to turn the ZUS fund into a three-pillar system, the farmers’ KRUS fund, despite receiving such heavy state subsidies, remained exempt from reforms (Müller, 1999, 163).

5.4. Conclusions

Discussing the political economy of compensation, Greskovits (1998, 154) notes that “the very existence of forms of compensation involving distribution of political benefits magnifies the government’s field of action [...] and improves its chances to establish a political environment favoring reforms.” In a similar spirit, I have argued that it was in the interest of post-communist governments to use welfare programs to create favorable incentives for threatened workers to go on abnormal pensions. The early 1990s have witnessed a range of remarkable reversals in government policies towards different groups of welfare state dependants in Hungary and Poland, though not in the Czech Republic. Pensioners had been among the more poverty-prone groups during late communism. But poverty rates for the elderly declined markedly, while those of younger welfare groups increased. Governments in Hungary and Poland increased replacement rates and spending levels for pensioners but reduced them for the unemployed or young families, in ways that suggested political motives above and beyond changing demographic and social needs. After 1989–1990, the distributional struggle for state resources among different generations was played more sharply, and according to different game rules. One of the most dramatic results has been an unprecedented increase in the number of non-elderly Hungarians and Poles who went on retirement. In just seven years, the number of Polish old age pensioners went up by almost half, and that of disability pensioners by over one-fifth. The Abnormal Pensioner Booms were equally dramatic in Hungary, where the number of old age pensioners went up by almost one-fifth and that of disability pensioners by close to one-half. Keeping in mind the comparatively mild demographic pressures in these same years, these are puzzling developments. The next chapter discusses the wider implications of these policies for the political economy of post-communist welfare states.

NOTES

- 1 The analysis does not aim at a full descriptive overview of social policies, a task that has been undertaken by others (e.g. Barr, 1994b; 2005). Certain relevant variables (such as taxation levels, inflation, and budget deficits) are not analyzed extensively.
- 2 For fuller overviews, see Barr (1994c), Fretwell and Jackman (1994), Boeri (1994; 1997a,b; 2003), Boeri et al. (1998), Boeri and Terrell (2002).
- 3 Of course, in recent decades governments in many advanced democracies have equally attempted to implement unemployment benefit retrenchment in an effort to restructure welfare states (Swank, 2001; Stephens et al., 1999; Pierson, 1994; 1996; 2001a). But these retrenchments have not been as systematic as in Hungary and Poland. As Boeri (1997a, 131) puts it: "Needless to say, in OECD countries cuts in the generosity of benefits are rarely made and when so, are much less radical and diluted over a longer period of time."
- 4 On Poland, see Kabaj (1996, 26), on Hungary, see Nesporova and Simonyi (1994, 12).
- 5 Atkinson and Micklewright (1992, 227–237). An absolute poverty head-count was used, with a cut-off level at national subsistence minimum (see also Cichon et al., 1997, 9).
- 6 Computed from Milanovic (1992, 332, table 2). The poverty line was the social minimum calculated by the Polish Ministry of Labor and Social Affairs.
- 7 Stanovnik et al. (2000, 43), using a poverty line of 70 percent of median household equivalent income. They also find that in 1987–1996 the share of pensioners in the bottom three deciles of the income distribution went down by respectively 12 and 20 percentage points in Poland and Hungary (29). For country case studies of relative poverty, see also Spéder (2000) and Szulc (2000).
- 8 Milanovic (1993, 13, 6, 7), using the national social minimum as poverty line.
- 9 See Kornai (1992b), Campbell (1992), Barr et al. (1994).
- 10 Family and maternity allowances and pensions were already mature welfare programs under communism. But with the exception of Hungary, poverty assistance and unemployment programs had to be started up from scratch—often taking off seriously only after 1992 (Cornia, 1996).
- 11 My calculations of spending figures from Hungarian Central Statistical Office (1993, 1994, 1995, 1996, 1997) as adjusted for the total number of benefit recipients indicate similar results. Child allowances and fees and family allowances decreased by 43 percent in real terms between 1990 and 1996, while social assistance benefits decreased by 48 percent. Pension spending per recipient decreased least of all programs in real terms (by 27 percent). Förster et al. (1999, 297) find that by 1996 the real value of family allowances in Hungary had decreased by 55 percent compared to 1992, that of unemployment benefits by 58 percent, that of social assistance by 21 percent, and that of pensions by 13 percent (see also Sipos and Tóth, 1998). Spéder (2000, 97) finds that by 1996 the real value of child care allowances, unemployment benefits and old age pensions amounted to respectively 41, 67 and 68 percent of their 1990 levels. Kabaj (1996, 39) reports that by 1994, Polish real wages were down by 45 percent compared to 1989 levels, real smallholders' and agricultural incomes were down by 54 percent, and real pensions, social allowances and unemployment benefits (non-segregated)

- were up by 14 percent. For US studies, see Pampel and Williamson (1989) and Mulligan and Sala-i-Martin (2003).
- 12 Stanovnik et al. (2000, 33), see also Cornia et al. (1996), Sipos and Tóth (1998), Golinska (1999), Inglot (2003). Spéder (2000, 60) similarly finds that average replacement rates in Hungary went from 61 percent in 1985 to 66 percent in 1990 and 59 percent in 1996. Spéder adds that the various changes in pension indexation methods were due to political considerations. Szulc (2000, 103) indicates that average pensions over average net wages in Poland increased from 50 percent in 1989 to 59 percent in 1990 and 65 percent in 1991, thereafter declining slightly to reach 61 percent in 1996.
 - 13 In 1980, monthly allowances for a family with two children reached 17 percent of average earnings in Poland, 20 percent in Czechoslovakia and 22 percent in Hungary. This was more than double the rates offered in West Germany, France, the UK, or Sweden (Sipos, 1994, 229–230, 244). For fuller overviews, see also Cornia (1996), Cornia et al. (1996). For instance, in Hungary, total spending on family benefits had increased from 2.8 to 5.0 percent of GDP between 1980 and 1991. But in the following six years, a time of rising social needs and rising expenditures for other programs, family spending slumped to 1.7 percent (Sipos and Tóth, 1998).
 - 14 While these indicators give a rough indication of the benefits accruing to representative welfare dependants, they are not perfectly comparable. For instance, p refers to benefits as a percentage of current average wages in the economy while u refers to benefits as a percentage of own previous wages, albeit for a couple having earned around the average wage in the economy. In Poland since 1991, the specific formula linking pensions benefits to own previous earning was $B = 0.24L + (0.013N' + 0.007N'')A$, where B equals the amount of benefit, L a lump sum similar to average monthly earnings, N' the number of years when contributions were paid, N'' the number of eligible years when contributions were not paid, and A the indexed average own earnings over the previous 10 years (with a limit of 250 percent of national average earnings). Especially for individuals with prior earnings below the average wage (who may have been disproportionately affected by post-communist labor status uncertainty), the resulting pensions benefits as a percentage of previous earnings were actually higher than those reported in figure 5.9, making the estimate in table 5.3 err on the conservative side. For a fuller discussion, see Czepulis-Rutkowska (1999, 148–149).
 - 15 Computed from Huber and Stephens (2001, 137, table 5.6).
 - 16 See Andrews and Rashid (1996), Maret and Schwartz (1994), Palacios and Rocha (1998), Cichon et al. (1997), World Bank (1995), Boeri et al. (1998), Müller (1999), Spéder (2000), Szulc (2000), Barr and Rutkowski (2005).
 - 17 This analysis draws on Schrooten et al. (1999), who made an explicit attempt to make data of different countries comparable and to use a common definition for each of the categories.
 - 18 For Hungary I have redone these calculations with data from various issues of the Hungarian Statistical Yearbook. The total number of pensioners was 29 percent higher in March 1997 than in January 1989. The number of old age pensioners in this period increased by 21 percent, and the number of disability pensioners by 54 percent. Similarly, Spéder (2000, 59) reports that in Hungary, between 1989 and 1996, the number of old age pensioners increased by 18 percent, that of disability pensioners above age

limit by 32 percent, and that of disability pensioners below age limit by 72 percent. Altogether, the number of Hungarian disability pensioners grew from 500,000 to 850,000 in this period.

- 19 Computed from Schrooten et al. (1999, 281, table 1). In the same vein, Milanovic (1996) reports that between 1989 and 1992 alone, around 500,000 Poles went on early retirement related to industrial restructuring, and a further one million retired early related to provisions on work in harmful or difficult conditions. Maret and Schwartz (1994, 59) report that between December 1989 and December 1993, the total number of Polish pensioners grew by 28 percent.
- 20 These estimates provide only a very rough indication of the yearly growth in abnormal pensioners, and they are not fully comparable, for instance due to cross-national differences in legal retirement ages. They were calculated from Schrooten et al. (1999, 281, table 1) by adding the yearly change in the number of old age pensioners to the yearly change in the number of disability pensioners, and subtracting from it the yearly change in the number of people over 60. All estimates err on the conservative side to the extent that they exclude special categories of pensions, such as survivors' pensions, special occupations and, significantly in the Polish case, farmers.
- 21 Of all men who were granted old age pensions in Poland in 1997, only 13 percent were actually 65 years old or more, whereas 50 percent were between 55 and 59 years old. Of all women who were granted old age pensions that year, 22 percent were actually older than 60, whereas 42 percent were between 55 and 59 years old (Czepulis-Rutkowska, 1999, 151).
- 22 In Hungary from 1975, a minimum of ten years of full employment was required to obtain a pension, after which workers were entitled to 33 percent of the average of earnings in the three best years out of the last five. Beyond these ten years, pension benefits were progressive according to the duration of employment. In other words, the state rewarded employment and penalized early retirement. The maximum pension could be achieved only after 42 years of employment. Moreover, special incentives stimulated labor force participation even beyond the official retirement age. For each additional year of employment for men over 60, the pension was raised by 7 percent for blue-collar, and by 3 percent for white-collar workers (Szalai, 1991, 343–348). From 1973, workers in extra-hard occupations who had worked at least 10 years continuously were entitled to a reduction of retirement age by two years, and by a further year per additional five years' employment spell. Disability pensions in turn were established in the 1975 Social Security Act. Only those who had lost at least 67 percent of their former working capacity and who met the precondition of ten years prior employment were eligible. Application procedures were discouraging and waiting times were frequently between 6 to 12 months. In 1985 less than ten percent of applicants were regarded as fully eligible, while all other applicants were listed for review one or two years later (Szalai, 1991, 343–348).
- 23 On Western early labor market exit, see Kohli et al. (1991), Sala-i-Martin (1991), Esping-Andersen (1996a, 1999), Scharpf and Schmidt (2000), Mulligan and Sala-i-Martin (2003), Maltby et al. (2004). The steepest declines in participation can be clearly traced to changes in government policies regarding the age and flexibility of retirement (Jacobs et al., 1991, 59–61).

- 24 In Hungary, pre-retirement was twelve times as numerous in 1991 as it had been in 1989 (Szémen, quoted in Baxandall, 2004, 133). The projected financial imbalances of Western pension systems were not of a similar scale as in the post-communist cases either. To maintain the levels of pension benefits that existed in the mid-1990s, Polish government subsidies would have to reach an estimated 22 percent of GDP by the year 2020. In Western countries, where early exit strategies had started decades earlier, analogous projections for 2010 put the needed level of state subsidies at 11 percent of GDP in Germany, 13 percent in France, 8 percent in Sweden, 5 percent in the UK and 4 percent in the US (Hausner, 2001, 214).
- 25 Computed from Polish Ministry of Labor and Social Affairs (1996, 64, table IV.I). These data exclude foreign beneficiaries.
- 26 Unlike pensioners, Polish farmers were represented by political parties that could engage in pork-barrel politics. After the September 1993 elections, the Polish Peasant Party became a prominent government party. With Waldemar Pawlak, it even provided the prime minister in what was to become the longest-serving government, and the first one led by former communists (1993–1997). But even here, mere preference-accommodating or client-based politics cannot be the whole story: the growth of state financing of KRUS was fastest until 1993.
- 27 Czepulis-Rutkowska (1999, 146). Like farmers, Polish miners also managed to secure special pensions favors (including benefits twice the national average), which successive post-communist governments did little to correct. In February 1993, the last Solidarity government pushed through a special pension law to consolidate the right of miners to retire at 55 or after 25 years of work. And in June 1994, the new social-democratic–peasant coalition further amended pension legislation in favor of miners. Miners’ basic pension benefits were increased by 50 percent for each year worked and the number of contribution years needed to retire was reduced. Throughout the early 1990s the mining industry remained the main debtor to the public pension system, with some mines regularly failing to pay their contributions despite having collected them. (Hausner, 2001, 212–213; Cain and Surdey, 1999, 162). Similar contributions arrears were allowed to persist for railroad companies in Hungary (Nelson, 2001, 238).

CHAPTER 6

Peaceful Pathways

The Political Economy of Post-Communist Welfare

“At every step along the way there [are] choices – political and economic – that provide ... real alternatives. Path dependence is a way to narrow conceptually the choice set and link decision making through time. It is not a story of inevitability in which the past neatly predicts the future.”
Douglass North (1990, 98–99)

Why, far from retrenching maturing pensions systems, did resource-constrained governments pass early laws that positively worsened pension finances? How did the Great Abnormal Pensioner Booms of the early 1990s affect the Hungarian and Polish welfare regimes in later years? What, if anything, justified the huge public-financial cost of these booms? Why was the cost incurred at all? This chapter focuses more closely on the temporal dynamics of the social policy choices made by post-communist governments. Path dependence theories can help to explain the *persistent* differences in the larger welfare pathways taken by these societies. Once-contingent policy choices have shaped future welfare outcomes, dramatically and irreversibly. I show how the early social policies discussed in previous chapters have made the larger welfare regime pathways taken in Hungary and Poland diverge strongly from those taken in the Czech Republic, despite similar legacies. I critically review alternative explanations of post-communist pension politics and indicate why economically problematic divide and pacify policies contained an element of political rationality.

6.1. Policy shift: Interpreting early pensions choices

The basic logic of pay-as-you-go pension systems is straightforward. Current workers pay contributions to finance the benefits of current pensioners.¹ Pay-as-you-go systems are thus financially very sensitive to changes in the rate of contributors to pensioners. In aging societies, therefore, governments face strong pressures to reform pay-as-you-go systems by partially privatizing them. In the early 1990s, such reforms were advocated by a number of powerful financial institutions. The World Bank, the IMF and the OECD all favored far-reaching reforms and partial privatization of existing pension systems. The aim was to move towards an ideal-typical system as had been implemented in Chile in the early 1980s. It consisted of three tiers: a mandatory publicly managed pay-as-you-go pillar, a mandatory privately managed and fully funded pillar, and a voluntary privately managed pillar. The international financial institutions devoted extensive efforts to promote this blueprint in transition countries. Already in 1990–1991, both the World Bank and the IMF sent missions to Hungary to analyze the social security system (Nelson, 2001). The World Bank's pension reform campaign further included the publication and wide distribution of the guideline document *Averting the Old Age Crisis* (World Bank, 1994), the organization of conferences, seminars and workshops intended to set the agenda of local policymakers (Müller, 1999), and the dissemination of its own experts' views in academic publications (e.g. Fox, 1997; James, 2000).

Beyond advice, the international institutions enjoyed powerful financial leverage to influence the policies of East European governments in need of foreign loans and investments to pay off debts and restructure their economy. For instance, the IMF could exercise direct pressure through conditionalities attached to its own lending and it could exert indirect pressure through the signaling function it performed towards potential private-sector investors. Private financial institutions expecting to set up pension funds had an additional interest in privatizing the pension system (Müller, 1999). In this light, it appears all the more remarkable that, far from implementing pension reforms along the suggested lines, governments in Hungary and Poland presided over large-scale Abnormal Pensioner Booms. From a public-financial viewpoint, these appeared to be distinctly sub-optimal policies. Abnormal retirement was doubly hazardous for public finances. It increased the numerator of the pension system dependency rate while at the same time decreasing the denominator.

Yet as figures 5.11 and 5.12 show, system dependency rates skyrocketed in Hungary and in Poland. Both numerator and denominator were adversely affected. The number of pensioners increased by respectively 22 and 35 percent; that of contributors dropped by 25 and 14 percent.²

Theories developed to explain welfare state developments in advanced market democracies are only partially helpful in accounting for these events. Public choice and political economy explanations converge in explaining why welfare programs prove difficult to reform or retrench, even if such reform would enhance aggregate welfare.³ The “new politics of welfare” literature proposes that politicians face an uphill battle in reducing welfare program generosity while avoiding blame for it.⁴ The political logic behind mature pay-as-you-go pension systems further complicates retrenchment efforts. When large and growing pools of workers pay social security contributions that benefits small pools of pensioners, politicians can afford to offer pensioners generous eligibility conditions and benefit levels. But when pension systems mature, different political conditions arise. Workers approaching retirement, having paid contributions for many years, will then expect generous pensions when they themselves retire. Especially when shrinking pools of contributors need to finance large and growing pools of pensioners under conditions of slow wage growth, the financial balance of pay-as-you-go pension systems is at risk. But attempts to switch to fully-funded arrangements, whereby current workers contribute to their own future pensions, will run into an additional obstacle. Such shifts require workers to finance current pensions and their own future pensions at the same time. In Myles and Pierson’s (2001, 313) view, this double-payment problem is “likely to present an insurmountable barrier to privatization or the capitalization of existing public schemes.”

However, it is one thing to predict that politicians may find it hard to retrench or reform mature pension systems in financial troubles. It is quite another to posit that they will actually *add* to the already existing troubles by expanding rather than retrenching the systems—in a period, moreover, of tighter-than-ever budget constraints. Yet that is precisely what happened in Hungary and Poland between 1989 and 1996. In many ways, this period is best seen, not as an instance of the “new” politics of welfare, but as a peculiar and novel instance of “old” welfare expansion *despite conditions for retrenchment*. Set up shortly after World War II, Central European pension systems had reached maturity by 1989–1990. Between 1960 and 1980 alone, replacement rates had converged to high

levels in Hungary (from 32 to 55 percent), Poland (from 40 to 46 percent) and the Czech Republic (from 60 to 54 percent). System dependency rates had also increased significantly, from 24 to 43 percent in Hungary and from 20 to 35 percent in the Czech Republic.⁵ Yet the first democratic governments in Hungary and Poland did not just delay socially costly pension reforms. By allowing hundreds of thousands of working-age individuals to go on abnormal retirement schemes within just a few years, they positively contributed all the elements of a pensions crisis. In so doing, they further aggravated the double payment problem. Where, strictly speaking, no immediate old age crisis existed in 1989–1990, post-communist governments had brought about a pensions finance crisis just seven years later.

A large literature has described these developments and has given reform prescriptions to restore unsustainable pension finances.⁶ However, these accounts underplay the fact that the abnormal retirement policies implemented in Hungary and Poland were not a purely exogenous characteristic of the transition. Rather, they involved policy parameters that were still largely at the discretion of governments. The political motives ascribed to these hugely costly policies by existing studies, if any, tend to be vague and off-hand. Nor does this literature explain why policies that flew in the face of national financial prudence, international financial advice and economic common sense were nevertheless enacted by local politicians. It is typically assumed that social policy played a role in creating “tools to compensate for the social impact created by the economic transition, and to ensure the necessary political support for that transition” (Mácha, 1999, 246). But this is rarely followed by a sustained explanation of the motives for creating these tools and of the precise mechanisms to obtain this support. Nor do these accounts distinguish whether it was active political support or enforced and passive quiescence that lay behind costly reforms.

Despite similar legacies and starting points, policy pathways in Hungary and Poland rapidly diverged from those in the Czech Republic in the early 1990s. According to Müller (1999, 56), the precarious state by 1996 of external debts and pension finances in Hungary and Poland but not the Czech Republic necessitated systemic pension reforms only in the first two countries. But why did matters get so much out of control *before* 1996, and why not in the Czech Republic?⁷ Received wisdom agrees that pension reforms until the mid-1990s “were slow, piecemeal, and not sweeping enough,” thus leading to a financial crisis that “did not stem

from population ageing but was transformation-induced.”⁸ Others interpret the pensioner booms as an unforeseen or unintended consequence of early policy choices. Noting that right until the end of the 1980s the Polish pension system operated under financial equilibrium, Hausner (2001, 212) goes on to interpret the accelerating disequilibrium of the next few years as “the unintended consequence of many isolated ad hoc decisions.” Similarly, Spéder (2000, 53–54) argues that the Hungarian pensioner boom was “unplanned [...] [its] significance was not only underestimated but also recognized rather late by policymakers.” And Golinowska (1999, 176) refers to high inflation producing the need for rapid decision-making and to “a lack of competence amongst the newly appointed ministerial staff.”

However, such explanations hollow out the notion of policymakers making competent and conscious decisions. They are especially unsatisfactory if one considers the fact that the skyrocketing social expenditures that followed the pensioner booms were subject to yearly budgetary revision by governments. Many of the laws that made these policies possible still had to be written from scratch and approved by parliamentary majorities. Equally important, as János Kornai emphasized in his Foreword to this book, policymakers and bureaucrats at different levels both tacitly and publicly *encouraged* workers to retire early. The economic incentives, legal opportunities, and official encouragement to retire, and the unprecedented scale of the resulting pensioner booms, all call for deeper analysis. If these booms were truly unintended and were not meant to serve important other purposes, we should expect resource-constrained governments to have responded relatively quickly to rein them in before they spiraled out of control. After all, precisely the ability to avoid large-scale irreversibility by means of corrective moves in subsequent stages has long been hailed as a main advantage of incremental policymaking.⁹ Once the “true” size and cost of the early pensioner booms had become clear, we should therefore observe legislative measures to halt or slow them down by retrenching the eligibility and generosity parameters of pensions. Instead, successive parliaments and governments took active steps to make abnormal retirement possible and, in some cases, easier and more rewarding than before.

New unemployment and labor market laws were written to accommodate the political constraints of market transition. In Hungary, a new Act on Employment and Provision for the Unemployed was

approved by parliament in March 1991. This Act effectively created two additional legal opportunities for early retirement. First, workers less than five years before the official retirement age who were threatened by unemployment could now retire early, if until that age their employer financed the pension. Second, workers less than three years below the official retirement age and with at least twenty years of service could now go on early pensions, to be financed by the unemployment fund, if they had been unemployed for six months or longer.¹⁰ In 1991, the minimum period of employment for eligibility was raised to twenty years. But this was immediately qualified to include non-contributory years such as periods of military service, university studies and maternity and sickness allowance. Moreover, a partial pension was introduced for those with minimum ten qualifying years (fifteen after 1993). Benefit calculations became more opaque and subject to ad hoc political decisions, for instance regarding indexation. And far from increasing incentives to stay in employment after retirement age, the new pensions benefits calculation formula implied that beyond 32 working years workers could gain almost nothing from continuing to work. The Hungarian parliament also adopted a bill in 1991 which awarded the Pension Fund the equivalent of 10 percent of GDP of still to be realized privatization revenues (Müller, 1999, 66–68). Yet as figure 5.11 shows, pension system dependency rates continued to worsen from 51 percent in 1989 to 57 and then 66 percent in 1991 and 1992.

In Poland, a number of legislative actions were taken to increase the generosity and the real value of pension benefits, to make eligibility for early retirement more flexible, and to extend it specifically to those affected by large-scale lay-offs. For instance, just before the presidential elections of autumn 1990, the levels of new pensions were hastily increased and new legislation for farmers was adopted to relax their pension eligibility rules (Inglist, 1995, 365–366). The Sejm also twice passed new laws in 1990 to ensure that pensioners were better protected from hyperinflation. A quarterly indexation mechanism was first introduced in May 1990 (Inglist, 2003, 222). Minimum pensions were increased, while indexation was based on average wage growth (Cain and Surdey, 1999, 158). Just before the 1991 parliamentary elections, President Walesa pushed through a last-minute amendment increasing the guaranteed minimum pension to the equivalent of 60 percent of that year's average wage. And the Council of Ministers retained its power to allow early retirement in selected regions with high unemployment (Inglist, 1995, 368).

Regulations were similarly introduced in 1991 to allow early retirement specifically for workers who were made redundant—without the loss of benefits. This applied for men if they had 40 years of prior employment, and for women if they had 35 years.¹¹ Women with thirty years of employment could retire at 50. Entire categories of workers, such as miners, teachers and railway workers, could also retire early. As a result, the Polish pension system dependency rate continued to grow from 39 percent in 1989 to 52 and then 58 percent in 1991 and 1992 (figure 5.12). The short-lived Suchocka government between 1992 and 1993 did make an attempt, largely in vain, to rationalize the spiraling pension expenditures.¹² But its successor, led by Waldemar Pawlak, resumed earlier pensioner-favoring policies.¹³

The case of the Czech Republic further shows that post-communist pension policies were not a “necessity” uniformly dictated by external circumstances. Czech legislators did move to avoid a further expansion of their pension system. In early 1993, all special privileges for selected sectors under communism were abolished. Retiring early was possible only under two sets of circumstances, and it entailed a significant reduction of the earnings-related component of benefits (Müller, 1999, 132, 146fn). Czechs wishing to retire two years early had to have been on the unemployment register for at least 180 days. Their pensions were then reduced by 1 percent for every 90 days of pension taken prior to official retirement age, although this reduction was lifted upon reaching that age. Czechs wishing to retire three years early saw their pension benefits reduced by 0.6 percent for every 90 days, and permanently so.

In sum, the benchmark assumption of non-intentional or overly constrained policymaking cannot provide a complete and coherent explanation of the social policy packages adopted in Hungary and Poland, and the Czech Republic. This is not to advocate a hard-nosed portrayal of post-communist policymakers as Machiavellian master-minds. Rather, I emphasize that purposive decisions could be taken *within* the parameters set by external, structural, and legacy constraints, rather than being eclipsed by these. The aim is to redress an imbalance created by existing “non-political” or “external” accounts that too heavily impute non-intentional behavior to decisionmakers.¹⁴ Such accounts are not theoretically appealing either. As Alesina (1994, 38–39) points out, “it is often too easy to explain apparent departures from efficient collective behavior as the result of naiveté behavior, lack of understanding of basic economic relationships, shortsightedness, forgetfulness, or incoherence. Interpretive

schemes and models in which behavior and expectations that are not rational play a crucial role should be used only as a last resort, after first considering other explanations.”¹⁵ Allowing scores of able-bodied workers to retire abnormally was one among many policy paths that could have been taken in Hungary and Poland. But the fact *that* it was taken is likely to have narrowed subsequent political developments in specific, path dependent ways.

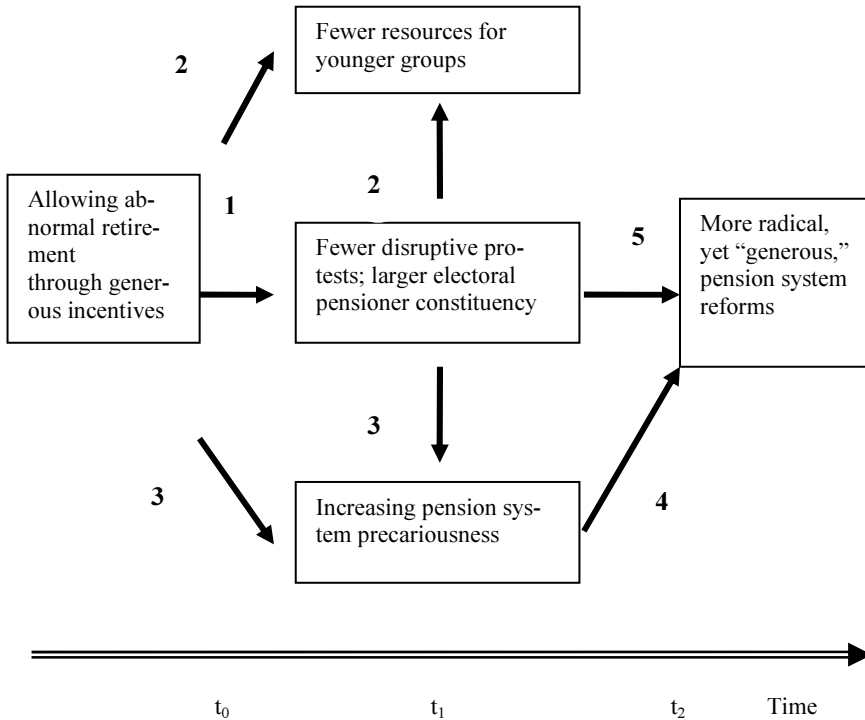
6.2. Generational politics: The subsequent evolution of welfare pathways

For path dependence to be useful as an explanatory framework, it needs to specify first, the initial point at which one path rather than another was taken and second, the mechanisms that subsequently lock-in that particular path (Pierson, 2004). In the case of Central and Eastern Europe around 1989–1990, the first point is unusually clear. The transition to market democracy was an exceptional instance of large-scale social change; a formative historical turning point. In a policy environment in which civil society was not yet a strong countervailing power, the first democratic governments could reverse the course taken by these societies over four decades. Emphasizing the importance of such formative moments, Pierson (1993, 602) argued that “policy feedback is likely to be most consequential in issue areas (or in countries, e.g. those of postcommunist Eastern Europe) where interest group activity is not yet well established.” The further task, however, is to distinguish *self-reinforcing* mechanisms locking-in the initial policies, once in place.¹⁶ After the starting events, how did the probability of one set of outcomes (abnormal pensioner booms; political quiescence; fast reform progress), rather than another (public-financial prudence; disruptive protests; slow reform progress), increase with each step further down the path? Figure 6.1 stylizes some causal mechanisms that narrowed the choice sets of post-communist policy-makers over time.

Once a fraction α of threatened workers were allowed to retire abnormally (at t_0), it was impossible for governments to reverse this exit later, as pensioners could not be forced back into formal employment. The pension system was now more likely than ever to face systemic reforms in later years (at t_2). But the wider work-welfare set-up of society was perturbed. The new abnormal pensioners depended on state benefits rather than work-

ing wages, but they represented less of a disruptive threat. Thus the nature of post-communist politics was altered. More powerful pension demands by an over-sized pensioner constituency could be expected at the end of electoral cycles, but fewer protests occurred in the short run (cause 1).

Figure 6.1. Temporal dynamics of early retirement policies and their subsequent effects for welfare politics



Cause 1: Generous incentives for retirement reduce the scale of disruptive protests but increase the size of the electoral pensioner constituency

Cause 2: Heavy spending on pensions reduces the resources available for other groups that depend on the welfare state

Cause 3: Heavy spending on pensions creates growing pension system financial problems

Cause 4: Growing pension system problems necessitate systemic reforms

Cause 5: The large pensioner constituency narrows down the ways in which systemic reforms can be implemented and obliges governments to be generous to current pensioners

In 1993, 91 percent of total expenditures by Polish pensioner households were accounted for by the social transfers they received, compared to 17 percent for worker households and 27 percent both for farmer households and for worker–farmer households.¹⁷ Compared to young or middle-aged households, post-communist pensioner households depended to a greater extent on the state for their income. In 1996, pensions represented more than 80 percent of total household income for pensioner households in Hungary and Poland, whereas own earnings represented respectively 7 and zero percent.¹⁸ Just like American pensioners (Campbell, 2003; Mulligan and Sala-i-Martin, 2003), post-communist pensioners were therefore turned into a classic example of a powerful and single-minded voting constituency. The real value of their public pensions formed a common interest that was both easily identifiable and of high importance. With normal pensioners (voting weight $n/3$) now joined by the early and disability pensioners (voting weight $2an/3$), this constituency's electoral clout was higher than ever (table 4.1). Even if not all pensioners adhered to a single ideology or voted as a single bloc, their sheer size could from now on preemptively influence the policy platforms of politicians in elections and their social policies before elections.

Since fiscal resources were strongly constrained in the transition, favoring pensioners left fewer resources available for other welfare state dependants (cause 2 at t_0). At the same time, the transfer of hundreds of thousands of working-age individuals out of the labor market aggravated pension finances. Whereas there was no immediate financial crisis in 1989–1990, barely seven years later there was a crisis (cause 3 at t_0). The abnormal pensioner booms further constrained the welfare pathways taken by these societies through subsequent feedback mechanisms. Once those who were actually unemployed had been marginalized numerically and neutralized initially, they could be further squeezed later on (cause 2 at t_I). As we have seen, π , always below 1 in Hungary and Poland, further decreased over time, and unemployment program generosity was otherwise reduced progressively (Tables 5.2 and 5.1). Once the pensioner constituency had been enlarged, it was harder than before to squeeze it (cause 3 at t_I). Polish governments stabilized pension replacement rates only after first letting them soar up in the first, most costly, years. Hungarian governments could only stabilize pension replacement rates, and did not otherwise retrench pensions. For instance, the Bokros stabilization package passed by parliament in May 1995 included such measures as the introduction of tuition fees at universities and colleges, a 10 percent real

wage cut for state employees, the abolition of universal family allowances, a sharp reduction of child care assistance, the cut of almost one in five civil service jobs and a further 15 percent cut in public employment, mainly of doctors and teachers. But the package did not target the pensioners (*Transition Newsletter*, 1995a,b).

After the pensioner booms, systemic pension reform was needed more urgently than ever (cause 4). But the way in which this could be done was now more strongly constrained (cause 5). In a process that accelerated from 1996 (in Hungary) and 1997 (in Poland), both countries indeed moved to draw up and implement comparatively radical pension system reforms, including a three-pillar system with a large privatized part. Yet the idea of such radical reforms had been literally a political non-starter only seven years earlier.¹⁹ The Hungarian and Polish reforms were comparatively radical also within a larger international perspective. Reviewing all major pension reforms adopted across the OECD since the 1980s, Myles and Pierson (2001, 318) found that “none of the nations where extensive, mature pay-as-you-go systems were in place by the late 1970s are moving towards full funding.” But in the mature Hungarian and Polish systems, the abnormal pensioner booms did lead to more radical reforms after the mid-1990s. The social policies implemented in the early transition years triggered radical changes in the ways these societies administered their pensions. At the same time, they dictated new winners and losers in an intensifying “generations game,” reversing the economic fortunes of different age cohorts in the process. In so doing they shifted democratic politics in Hungary and Poland onto the new logic of gerontocracy.²⁰ Governments were now strongly constrained by the much enlarged electoral clout of pensioners and by the aggravated double payment problem. As a result, they shifted the reform burdens onto younger generations and future taxpayers, while continuing to favor current pensioners and alleviating the costs to current workers through fiscally expansionary measures. Thus the move to the new privatized pillar was made attractive by substantial incentives covered by the general budget.²¹ In Hungary, contributions by both employers and employees to the new private pillar benefited from huge tax breaks. Employees could receive a 50 percent reduction on their contributions up to the value of the annual minimum wage.²² For good measure, the Finance Minister added that “there is no critical threshold in this instance. If there will be more entrants, the budget will cover the whole deficit without any fuss.”²³

Yet there was nothing inherently inevitable or self-evident in the fact that this particular pathway was taken. The Czechs avoided an abnormal pensioner boom early on and subsequently steered away from the above dynamics. In the first two years of transition pension replacement rates increased only marginally, and in the next five years they were reduced by 10 percentage points (cause 3 at t_I), keeping them well below Hungarian and Polish levels (figure 5.10). As a result, Czech system dependency rates and pension finances did not spiral out of control. This in turn freed up budgetary resources for other welfare programs (cause 2 at t_0 and t_I). For instance, replacement rates for child allowances stabilized at moderate levels throughout the early 1990s, in contrast with the steady erosion in Hungary and the low levels in Poland. No radical pension reforms were implemented (cause 4).²⁴ Below I indicate how different labor market strategies further to set off the Czech welfare regime on a radically distinct pathway.

6.3. Post-communist labor market strategies

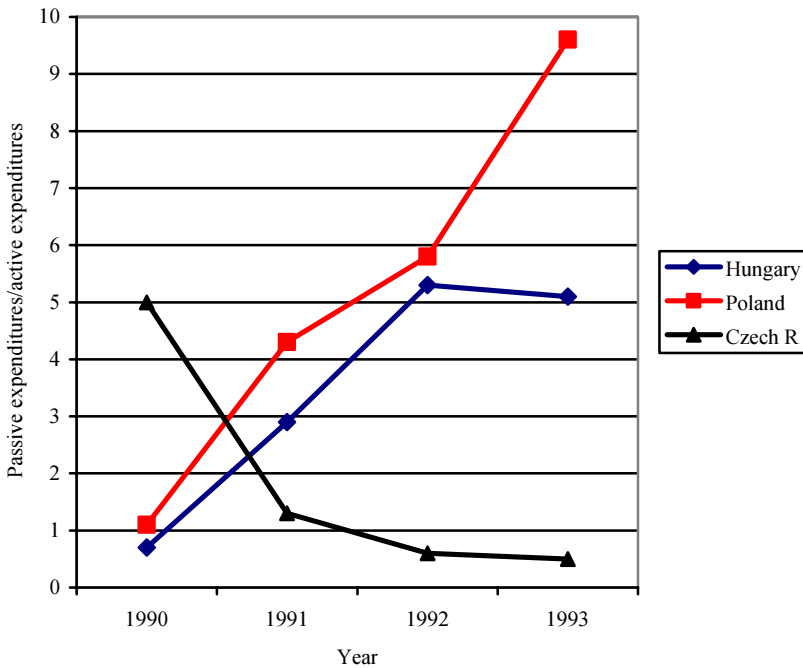
Czech governments have not adopted divide and pacify policies. Yet as we have seen in chapter 2, they have had to deal with still fewer strikes than their Hungarian and Polish counterparts. Were large-scale protests perhaps a lesser cause of worry for Czech politicians? I suggest not. The regime change in Czechoslovakia in late 1989 was spurred to a larger degree by massive popular protests. Czechoslovak unions set up 6,000 strike committees in November 1989. They were central in a nation-wide two-hour strike on November 27, in which around 60 percent of the workforce participated. Soon afterwards, the Communist Party started to relinquish its powers. Czechoslovak unions also implemented a large-scale personnel revolution that saw 80 percent of the old functionaries replaced by 1990.²⁵ Since the new union leadership was not allied with any of the governing parties and inherited the strongest union confederation in the entire region, it could credibly threaten to mount protests against contested reforms. The government initially attempted to preempt this by means of restrictive strike regulation. But the unions reacted by calling a strike alert throughout November 1990. Together with subsequent threats of a general strike, this made the government back down entirely. Union rights were extended, a liberal strike regulation was legislated, and the unions were invited to participate in the tripartite Council of Social Accord.²⁶

Instead, it is figure 2.1 which provides the key to understanding Czech social policies. Czech unemployment rates remained at around three percent throughout the early 1990s. These levels were not just conspicuously below those in other post-communist democracies. They were lower than anywhere in Europe in this period, and second-lowest in the entire OECD world.²⁷ Recall that even Hungary and Poland artificially reduced unemployment levels by massively transferring working-age citizens out of the labor market and onto pensions. Czech protest preemption strategies differed mainly in their primary target, which was to avoid large-scale job losses and labor market exits. An equivalent of the Balcerowicz program, the “Radical Strategy” blueprint paper, was adopted in April–May 1990. Unlike the Balcerowicz plan (which had no social policy section), the social policy section of this paper explicitly spelled out a strategy to avoid the immediate bankruptcy of large enterprises: “There must be sufficient time given for adaptation. Otherwise even viable economic potential will be destroyed, creating mass unemployment. Active structural policy must therefore provide temporary protection to viable enterprises, especially through credit, possibly subsidy, and partly also through customs policy.”²⁸ As we have seen, although Czech unemployment rates remained much lower, the share of the welfare budget spent on unemployment insurance and assistance programs was as high as in Hungary, and much higher than in Poland. However, Czech governments aimed to a greater extent at actively creating employment rather than passively compensating for its loss. This has ensured a higher outflow from unemployment to jobs, by “churning up” stagnant pools of individuals in danger of rapidly becoming unemployable (Boeri et al., 1998). Figure 6.2 displays the ratio of all “passive” to all “active” labor market expenditures.

Whereas passive expenditures (transfers) and active labor market policies (such as training programs and public works) were initially of equal size in Hungary and Poland, by 1993 passive expenditures were respectively five and nine times larger than active expenditures. Between 1990 and 1995, passive transfers accounted on average for 79 percent of all Labor Fund expenditures in Poland.²⁹ The opposite happened in the Czech Republic. There, the rate of passive to active expenditures decreased from 5 in 1990 to 0.5 in 1993. For comparison, in 1991, the same ratio stood at 0.9 in Sweden and 2.2 in France. Czech authorities set up a network of 77 regional labor offices as early as 1990, in an effort to provide easy access to a wide range of job services, including labor market

information and consultation, professional training and re-qualification, and the creation of work opportunities. Altogether, these active employment policies reached 92 percent of all unemployed persons.³⁰ In 1993, the share of active labor market expenditures in Poland (16 percent) and Hungary (23 percent) was lower than the OECD average (33 percent). But in the Czech Republic (55 percent) it was higher than in the top-ranking Western country, Sweden (45 percent).³¹

Figure 6.2. Ratio of passive to active labor market expenditures in Hungary, Poland and the Czech Republic, 1990–1993



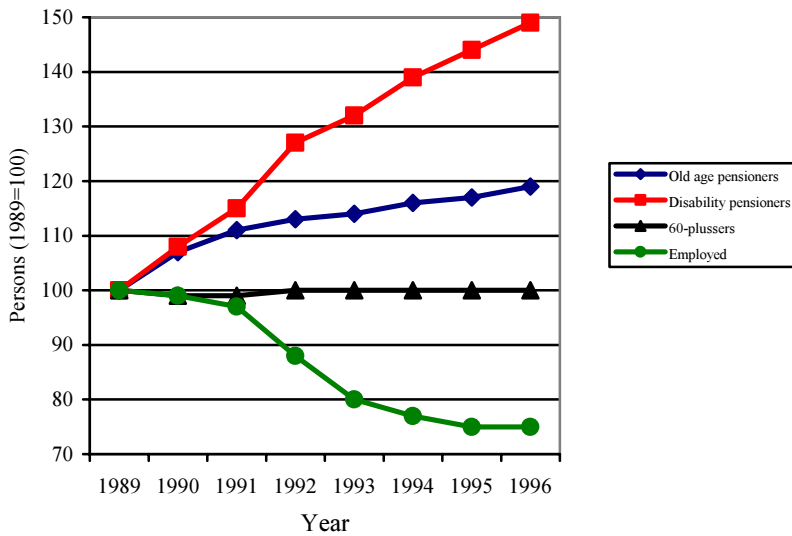
Source: UNICEF (1995, 60, table III.2).

The heavier Czech emphasis on programs destined to keep the employed in work and to keep the unemployed employable translated into better results on both counts. Between 1992 and 1996, inflow rates into unemployment averaged 1.1 in both Hungary and in Poland, but only

0.7 in the Czech Republic. The gap was more striking still regarding outflow rates out of unemployment, which averaged respectively 8.1, 6.3, and 22.³² And of those who did flow out of unemployment, many more Czechs actually found jobs, rather than leaving the labor force altogether. Between 1991 and 1992–1993 alone, the share of monthly outflows to jobs within total outflows rose from 65 to 71 percent in the Czech Republic, but fell from 56 to 48 percent in Hungary.³³ In addition to being unevenly distributed regionally, post-communist unemployment also displayed “stagnant pool” traits such as a low turnover and a rising share of long-term spells. As Tito Boeri and others have documented, by the mid-1990s the share of long-term unemployment within total unemployment hovered around 50 percent (and rising) in Hungary and Poland and was above 40 percent in all post-communist economies except for the Czech Republic, but below 40 percent in Western Europe.³⁴ Given that extra-household sociability generally declines with unemployment duration, the fact that post-communist unemployment increases were largely due to low outflow rates had important political repercussions. It meant that the risk of unemployment sparking protests might actually have decreased over time despite *increasing* aggregate unemployment levels. Active labor market policies and higher levels of employment are likely to have had wider knock-on effects on other spheres of the welfare regime.³⁵ Figures 6.3 to 6.5 illustrate more clearly the ways in which different social policy dimensions combined to form distinct welfare regime pathways.

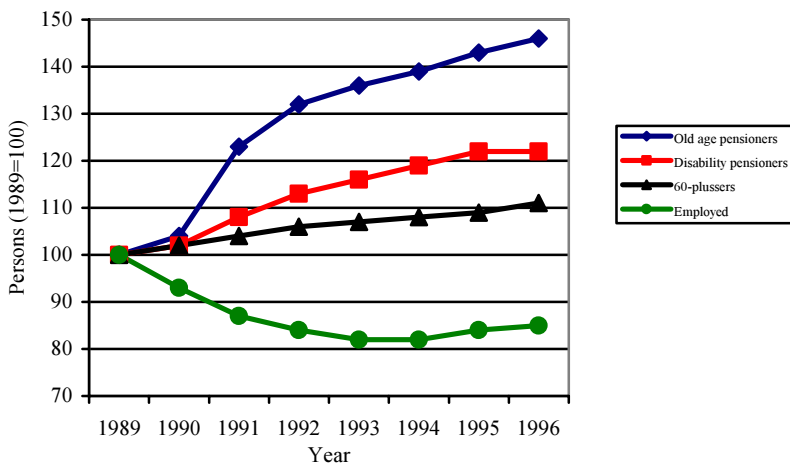
Clearly, different social policies crystallized into distinct regime pathways over time. There were booms and busts in Hungary and Poland, and neither booms nor busts in the Czech Republic. Again, rapidly aging populations were *not* among the gravest problems confronted by post-communist governments. The number of persons above 60 remained stable in Hungary and the Czech Republic, and grew by ten percentage points in Poland. But in the Czech Republic, no medium-term time bomb was set ticking under the pension system since abnormal retirement was not used to defuse the potential dynamite of losers’ protest.

Figure 6.3. The change in the numbers of old age pensioners, disability pensioners, 60-plussers, and employed persons in Hungary, 1989–1996



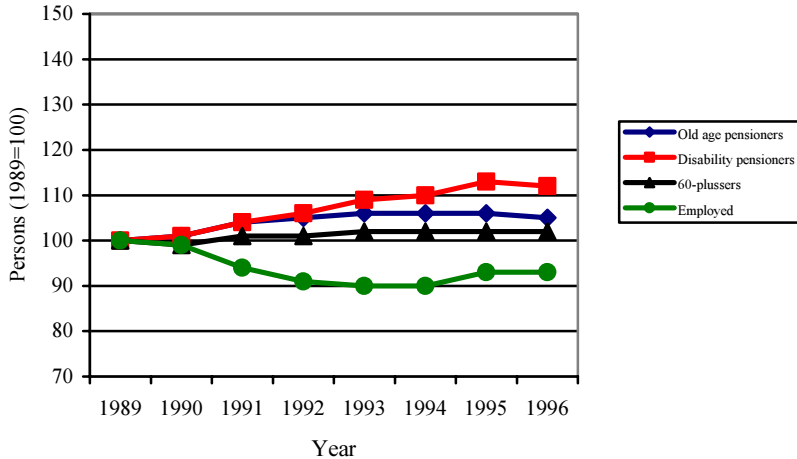
Source: Computed from Schrooten et al. (1999, 281, table 1). See also Vanhuyse (2004 b, 87).

Figure 6.4. The change in the numbers of old age pensioners, disability pensioners, 60-plussers, and employed persons in Poland, 1989–1996



Source: Computed from Schrooten et al. (1999, 281, table 1). See also Vanhuyse (2004, 88).

Figure 6.5. The change in the numbers of old age pensioners, disability pensioners, 60-plussers, and employed persons in the Czech Republic, 1989–1996



Source: Computed from Schrooten et al. (1999, 281, table 1).

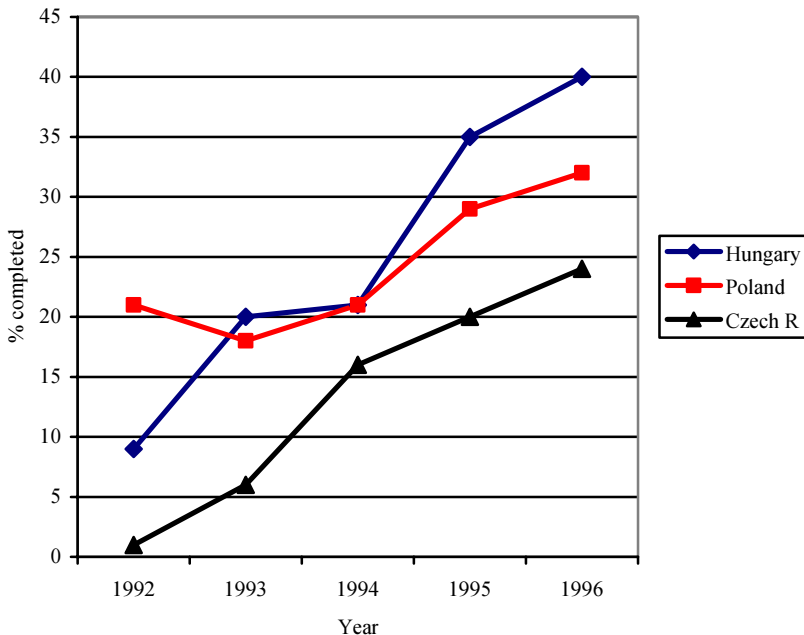
Perhaps the most significant dimension along which Czech governments diverged from market reform orthodoxy was in their avoiding the rapid hardening of budget constraints as part of the effort to preempt massive redundancies. As documented systematically by János Kornai, one of the defining features of communist economies was the pervasiveness and persistence of soft budget constraints. Soft budget constraints were induced, for instance, through state subsidies to inefficient firms, the lax allocation of bank and trade credits, and wage arrears.³⁶ After 1989, Czech governments diverged from those in Hungary and Poland in the concomitant hardening of these constraints. Between 1995 and 1997, the proportion of bad loans within total loans given out by the banking sector averaged 7 percent in Hungary, 17 percent in Poland, and 29 percent in the Czech Republic.³⁷ Between 1993 and 1997, government budget subsidies to firms amounted to respectively 5, 1, and 8 percent of GDP.³⁸ Loss-making or otherwise non-performing Czech firms were not always forced to face bankruptcy. Between 1992 and 1996, the yearly number of completed bankruptcies averaged 1,895 in Hungary and 1,000 in Poland, but only 312 in the Czech Republic. By the end of 1993, close to 3,000 Hungarian firms and close to 2,000 Polish firms had been declared bankrupt, compared to 66 Czech firms.³⁹

Government policies have clearly contributed to these differences. For instance, the Hungarian government enacted a new Accounting Law already in 1991 requiring all enterprises to switch to Western style accounting principles. A new Hungarian Bankruptcy Act instituted severe penalties for company managers who failed to file for bankruptcy after accountants had sounded the alarm. These included a “harakiri clause” that made managers personally liable in civil courts for any losses caused by such neglect (Kornai, 1993, 1999; Stark and Bruszt, 1997). Czech governments adopted a softer approach. Finance minister Klaus passed a tough new bankruptcy law through parliament in October 1991, but the law was never put into practice. By spring 1992, it was suspended for one year, after which it was postponed again. Instead, the Czech government pursued a deliberate anti-bankruptcy policy. This included the creation of the Konsolidacni Bank to buy much of the old enterprise debt with privatization receipts, and repeated interventions by the Ministry of Trade and Industry to prevent dozens of large enterprise bankruptcies. Between November 1992 and October 1993, not one large state-owned enterprise was liquidated. And when bankruptcy legislation was finally removed from a two year deep freeze, it was implemented only selectively.⁴⁰ Czech legislators furthermore avoided bankruptcies by maintaining soft and ambiguous standards. As late as 1997, bankruptcy laws only deemed a debtor insolvent if he could not meet his obligations within “a long period of time” (EBRD, 1998; Kornai, 1999). Figure 6.6 shows the proportion of successfully completed bankruptcies within the total number of cases filed for bankruptcy. Consistent with the “soft transition” picture, a smaller share of all filed bankruptcy cases were actually completed in the Czech Republic than in Poland and Hungary in any given year. At the same time, the effectiveness of bankruptcy procedures increased over time in all three countries.⁴¹

The specific methods used to privatize state-owned enterprises also had important implications for hardening firms’ budget constraints. Hungarian privatization proceeded by means of sales to individual corporations, which led to clear-cut responsibilities in the subsequent management of privatized firms. In Poland, governments resorted in part to flexible leasing agreements, which allowed companies to pay off the lease with retained earnings. For politicians, this particular method of privatization had a double benefit. It induced management to keep wages low to make profits, and to keep employment higher than optimal because workers were in part owners of the firm (Osa, 1998). The Czech Republic, by

contrast, stood out in the entire region through the populist character of its privatization schemes (Orenstein, 2001). Public property was privatized through property restitution and free distribution in vouchers, rather than through sales. As Kornai (1999, 22) has pointed out, to the extent that the vouchers were retained by individuals, they led to diffuse small-time ownership—hardly ideal conditions for effective monitoring of management performance. A substantial proportion of voucher assets, however, became concentrated in investment funds run by big banks that were still state-owned. This preserved a linkage between formally privatized enterprises and the state, which opened up a channel for subsidies or other soft protection.

Figure 6.6. Bankruptcies successfully completed as a percentage of bankruptcies filed in Hungary, Poland and the Czech Republic, 1992–1996



Source: Computed from EBRD (1997, 87).

Instead of dealing with the expected electoral costs and the immediate protest dangers of mass unemployment, Czech governments thus adopted a range of strategies to try and altogether avoid mass redundancies. As a result, trust in government and support for economic reforms was higher and less erratic than in higher-unemployment countries such as Poland and Slovakia (Orenstein, 2001, 80–81). Klaus became the longest-tenured prime minister in Central Europe. As we saw in chapter 2, Czech strike levels were among the lowest in the region. But comparative softness in liberalizing the economy would later come to haunt the country. Soon after Klaus won the June 1996 elections, a string of high-profile corruption scandals and costly large-scale bankruptcies in the financial sector as well as finance scandals in Klaus's ODS party exposed the responsibility of his governments for the deep systemic troubles and the lack of regulations of the Czech banking sector. They forced Klaus to resign in November 1997. This ended a remarkable eight-year stint at the top of Czech politics, during which Klaus's party had been one of the very few incumbent parties in post-communist Europe to have won subsequent general elections. Long hailed as a post-communist success model to be copied elsewhere, the Czech Republic now started experiencing rapid increases in unemployment (table 2.1) and it came to be viewed as a victim of economic policy failure (Orenstein, 2001, 126). In sum, Czech social strategies differed in their fine grain from the abnormal retirement approach adopted in Hungary and Poland. What they had in common was the government efforts to reduce political protests, and a degree of economic sub-optimality.

6.4. Alternative explanations of post-communist welfare politics

For different reasons, the leading theoretical paradigms developed to explain welfare state developments in advanced democracies are of limited help in explaining post-communist welfare politics.⁴² Logic-of-industrialism theories (e.g., Wilensky, 1975) have traditionally viewed increased social spending as determined by the increasing industrial development of societies. Such industrial growth produces higher state revenues but also social dislocation, as traditional support systems rooted in the family or the church are dislocated. Logic-of-industrialism theories, however, give little attention to the political mechanisms by which social needs translate into welfare spending. Like social needs-based theories of

the welfare state, they suggest that in democratic societies higher needs translate straightforwardly into higher spending. But in the case of pensions in Hungary and Poland, it was not primarily aging populations or poorer pensioners that propelled higher pensions expenditures, but the rise in the numbers of disability and early pensioners. Communist economies, moreover, were characterized by a heavy industrial bias and “prematurely” bloated welfare states (Kornai, 1992b; 1996). Logic-of-industrialism theories therefore face the additional problem of explaining why a large expansion of pension programs was implemented in post-communist Hungary and Poland during a period of economic recession and of rapid de-industrialization.

Working-class-strength theories (e.g. Korpi, 1983), in turn, assign a central role to electoral considerations in welfare state politics. In particular, they view welfare spending as determined by the relative strength of labor unions and of left-wing parties in governments and parliaments. Such theories emphasize conflict between classes (labor and capital) to the exclusion of other groups that are relevant in the politics of the welfare state. But groups like the pensioners may have interests that do not coincide with those of either capital or labor or may even conflict with them, as when the financial burden of pay-as-you-go pensions has to be born by the working segment of the population. The working-class approach is of limited use in the post-communist Central Europe for another reason. Trade union strength and influence eroded quickly during the early 1990s (see below). And socialist and social democratic parties were obviously politically disadvantaged because of their communist past. The first democratic government in Hungary was a coalition of conservative parties headed by the Hungarian Democratic Forum. In Poland, a number of successive governments implemented the notoriously radical “jump to the market” until late 1993, despite being linked to the Solidarity trade union. So the years during which most of the boom in pensioners occurred were not presided over by working-class interests but by distinctly anti-socialist governments. Not until mid-1994 (Hungary), late 1993 (Poland), and mid-1998 (the Czech Republic) did left-wing parties manage to gain office.⁴³ And when they did, ex-communist parties implemented a number of policies that were no less “pro-capital” than those of their predecessors in office, including the Bokros stabilization program in Hungary in 1995, and partial pension privatization in Hungary (from 1996) and Poland (from 1997).

Seemingly plausible neo-pluralist or descriptive theories trying to explain the above developments in terms of each group’s respective voting

weight would equally miss the point. Pluralist and neo-pluralist theories traditionally stress the role of electoral competition and interest group pressure in driving welfare state expansion (e.g. Dahl and Lindblom, 1976). They argue that parties, whether left-wing or conservative, have strong incentives to present expansionary welfare programs catering for large voting groups.⁴⁴ Dunleavy (1991, 22–23) suggests a more inclusive version of pluralist explanations of group effectiveness (E):

$$E = aS + bM + cI + dP \quad (6.1)$$

where S stands for the size of the interest group, M for its mobilization rate (defined as the group's actual membership divided by its potential membership), I for the intensity of the group members' preferences, and P for the pivotality of the group (defined as the degree to which the group's position can swing behind two alternative majority coalitions rather than being fixed in place). While all four factors undoubtedly play a role in determining group effectiveness in any given context, a fundamental problem with pluralist explanations is that essentially they lack a theory to ascertain the relative importance of these factors. Indeed, the coefficients a , b , c and d are seen as essentially "unknown variables which vary across countries and time periods" (Dunleavy, 1991, 23). Irrespective of this, the independent variables P , M and I are unlikely to account for group effectiveness in the case of post-communist pensioners. The interest of pensioners in better benefits, far from being pivotal, was both fixed and focused. Moreover, it is doubtful whether preference intensity carries much power in a context of high and society-wide transitional costs. Even though pensioners were likely to be highly discontented because of drops in their absolute welfare levels, their preferences were likely to be less intense than those of the unemployed, farmers, and families with young children, all of whom were many times more poverty-prone than pensioners. Mobilization rates, meaningfully defined, were also low. There were few formal organizations pursuing this group's interests, and those that did were often ineffective.⁴⁵ For example, political parties were formed to cater specifically for pensioner interests in Hungary (the Pensioners' Party), Poland (the National Party of Invalidity and Old Age Pensioners) and the Czech Republic (Pensioners for a Secure Life). But none of those parties actually managed to gain independent representation in parliament.⁴⁶ Moreover, lobby groups for the aged

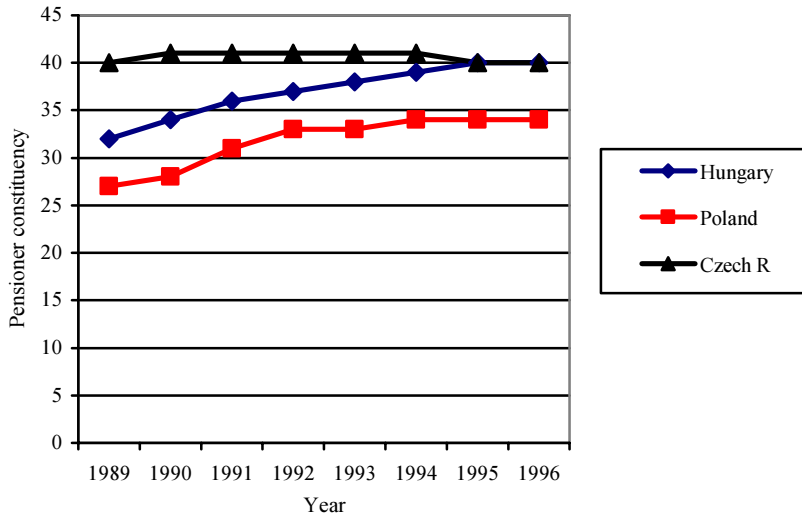
were widely perceived to be ineffective in all three countries, even in the run-up to the pension reforms in Hungary and Poland.⁴⁷

Consequently, equation (6.1) is only capable of explaining post-communist pensioner outcomes if the value for α is imputed to be disproportionately large—thus effectively transforming the pluralist theory into a simple voting power argument. An influential neo-pluralist account has indeed argued that large ascriptive groups such as elderly voters use their voting weight to compel parties and governments across the ideological spectrum to drive up spending on pensions in advanced democratic welfare states (Pampel and Williamson, 1985; 1988; 1989). Following this lead, some writers have suggested that similar factors can explain also why pensioners in transition economies experienced a reversal in their relative welfare levels.⁴⁸ At a minimum, however, such voting power explanations would have to satisfy a logical temporal criterion to gain plausibility. If it is the sheer size of large electoral constituencies that drives pension program expansion, then the growth of pensioner voting power should logically be expected to precede the growth of pension spending. But in the case of post-communist Central Europe, this scenario was not played out. Figure 6.7 presents an estimate of the voting power of pensioners—the share of pensioners within the population aged above 20.

In Poland and Hungary, the pensioner constituencies continued to grow very markedly in the early 1990s. They only reached their highest levels after 1994 (in Poland) and 1995 (in Hungary), when they accounted for respectively one-third and two-fifths of the electorate—probably the largest single-issue constituency. But the policies that favored pensioners were very prominent precisely in the first three years of the transition. Between 1989 and 1992 alone, pension expenditures as a percentage of GDP went up from 9 to 11 percent in Hungary and from 7 to 15 percent in Poland (UNICEF, 1997, 137). And as we have seen, Hungarian pension replacement rates remained high and stable in this period, while Polish rates soared sky-high. The decisions of both governments to increase the eligibility and generosity parameters of pensions in these first years are therefore hard to explain by electoral considerations alone. By 1995, Polish Labor Minister Leszek Miller defended his reluctance to retrench pensions on the grounds that “nine million pensioners who vote could not be ignored and any government coalition that does not want to provoke a large social conflict must take this into consideration.”⁴⁹ But the relevant point was really that the pensioner constituency was not nearly as large only five years earlier. Nor did Czech

governments, who *were* confronted with a much larger pensioner constituency in 1989, implement similar pensioner favoring policies.

Figure 6.7. Estimate of the electoral pensioner constituencies in Hungary, Poland and the Czech Republic, 1989–1996 (in percent)



Note: The yearly number of pensioners (in thousands) was divided by the yearly number of persons aged over 20, and then multiplied by 100. Source: Computed from Schrooten et al. (1999, table 1, 281). See also Vanhuysse (2004 b, 93).

Clearly, pensioner voting power in Hungary and Poland grew as a result of pensioner favoring policies—not the other way around. Neo-pluralist and “new politics” theories posit the reverse scenario.⁵⁰ Especially in view of pensioners’ low rates of formal mobilization, these theories predict that resource-constrained incumbents will prevent large voting groups from growing any further, by reducing pensions’ generosity and eligibility conditions. Instead, the political economy of post-communist pensions is best interpreted as a case of “policies that produce politics” (Pierson, 1993). As shown in figure 6.1, social policies implemented at a historically critical juncture altered the political clout of various welfare state constituencies, which later crystallized into favorable policy outcomes for the now-larger groups. But in the early stages, pensioners were spoiled primarily as a result of pro-active supply-side decisions, rather than of vigorous demand-side pressures.⁵¹ In other words, social policies

shaped the political arena as independent variables at t_0 , after which they turned into dependent variables by t_2 . Electoral considerations in turn affected the comparative *strength* of divide and pacify policies. While Hungary benefited from an unusually stable electoral climate, Poland experienced a succession of nation-wide elections in the early 1990s.⁵² These shorter electoral horizons help to explain why pensioner favoring was still more marked in Poland.

A number of expected economy-wide trends further reduced the disruptive potential of post-communist workers over time. Over the last few decades, integrated advanced economies have increasingly become “post-industrial” (Esping-Andersen, 1999; Pierson, 2001b). In post-communist economies, this trend was accelerated as governments cut back their traditional reliance on heavy industry. Together with related reforms such as the privatization of state-owned enterprises and the liberalization of many domestic economic activities and foreign investment, this reduced union density levels. Most new jobs were created in non-unionized firms, predominantly in services, and in small, medium-sized, or foreign-owned enterprises.⁵³ Governments were quick to exploit these adverse circumstances and weaken union power. Not allied with any of the main unions, the first Hungarian government, led by Antall, passed legislation in 1991 to make the deduction of union dues voluntary rather than mandatory (Fine, 1997, 254). Despite their nominal inclusion in tripartite bargaining structures, the unions were increasingly defeated or ignored on core issues. For instance, radical pension reforms in Hungary from 1997 and in Poland from 1998 were vigorously opposed by all major trade unions. But apart from some minor concessions, the unions achieved no substantial success.⁵⁴

As many observers have noted, a crucial factor that further weakened unions was their ambiguous alliance with reforming parties in government.⁵⁵ Solidarity (until 1993 and from 1997) and OPZZ (in between) in Poland and MSzOSz (1994–1998) in Hungary were simultaneously a dominant national trade union and an influential faction of a senior government party. Union leaders frequently occupied parliamentary seats. They called for moderation when in government even when it hurt labor interests, and adopted more aggressive stances when out of power. In a cynical variation on this theme, union leaders at other times did mobilize workers, but mainly because it promoted their *own* political interests. In the Czech Republic, central union leadership was mainly interested in flexing muscle through calls for national rallies in Prague, but it never got involved

in building up local union organization at the workplace level (Pollert, 2001, 20). In Poland, when the Solidarity leadership could no longer divert workers' anger by reference to fighting communist legacies, it finally started mobilizing workers in order to *contain* them. In December 1992, Solidarity set up the largest single coal strike in European history—which it settled without gaining much for the miners (Ost, 2001, 86; 2005). And in Romania, apparent signs of union strength in the latter part of the 1990s such as spreading strike waves, the prime ministerial tenure of unionist-turned-politician Victor Ciorbea, and an improved National Labor Agreement only served to mask a tale of “tactical victory and strategic loss” (Kideckel, 2001). Even in notoriously strike-prone mining districts such as the Jiu Valley, governments succeeded in transferring 50 percent more workers than originally anticipated, through seniority-based severance packages much like those discussed in chapters 4 and 5.⁵⁶

As a result of these overlapping developments, the legacy of high union density and coverage had been dramatically eroded already by 1995. Hungarian union membership as a percentage of the non-agricultural labor force had gone down by 22 percentage points compared to 1985 levels, to reach 52 percent. Polish union density had fallen by 20 points in six years' time, to reach 27 percent, and Czech union density by 41 points in just five years, to reach 36 percent. The proportion of employees actually covered by collectively bargained agreements was significantly lower in Hungary (45 percent) and the Czech Republic (55 percent) than in countries like France and Germany (both 90 percent), Sweden (85 percent), and Norway (66 percent).⁵⁷ More importantly, case study after case study has testified that post-communist unions, across a wide variety of political–institutional settings, have comprehensively failed to defend the jobs, wages, working conditions, and other interests of their remaining membership. Having entered the 1990s with a fighting chance, post-communist unions never converged to continental or northern European influence levels. Precisely at a time when unions in many advanced welfare states were engaging in mutually beneficial new forms of cooperation with employers, post-communist unions overshot the mark to approach Anglo-Saxon levels of near-irrelevance.⁵⁸ This general failure of union leaderships in promoting workers' interests must count among the most striking stories of Central and Eastern European transformations.

In sum, by avoiding conflicts early on in the transition, governments have much reduced the danger of large-scale conflicts subsequently.

While not reducing overall grievance levels in the polity, divide and pacify policies contributed to channeling the *expression* of grievances towards more peaceful repertoires. In so doing, they purchased the political breathing space needed for governments to push through costly reforms. In Hungary, the total number of protest days (defined to include the entire range of protest repertoires from open letters and signature collections to outright violent actions) reached peak levels in 1989 (893 days) and in 1993 (854 days). In Poland, the total number of protest days increased yearly between 1990 (1,684 days) and 1993 (4,382 days). However, the share of Polish strike alerts and strike threats within overall protest strategies went up (12 to 22 percent) in this period, while actual strikes went down (40 to 14 percent) and open letters and statements increased (10 to 18 percent).⁵⁹ Crucially, the ratio of disruptive protest strategies to non-disruptive protest strategies went down dramatically, from 0.74 to 0.31 in Hungary and from 2.06 to 0.83 in Poland.⁶⁰ Given that this ratio may include a number of “symbolic” events mistakenly coded as disruptive, real levels of disruption are likely to have been lower still.⁶¹ My reading of Hungarian police data indicates that a number of high-profile protests were essentially peaceful demonstrations of a highly symbolical nature, or with an international orientation.⁶² As Ost’s (2005) ethnographic study of Poland indicates, many strikes reported in the press were really cosmetic cases of local Solidarity unions “waving the flag” in a ritual display of solidarity with the national leadership.

What is clear is that as the 1990s progressed, the progressive replacement of disruptive by non-disruptive protest repertoires pushed the Hungarian and Polish polities onto peaceful pathways. However, as Greskovits (1998) hypothesized, sentencing reform losers to silence during inter-election periods could make them bundle their grief against incumbents at polling time. In effect, the senior incumbent parties lost office in every general election in Hungary and Poland in the early 1990s. Across Central Europe, groups such as the unemployed, retirees, blue-collar workers and agricultural workers have all tended to vote against pro-reform parties. Quantitative analyses of parliamentary and presidential elections have consistently indicated that unemployment has been strongly negatively correlated with electoral support for incumbent parties. And as Richard Rose and colleagues have documented over the years, popular disaffection, political disappointment, distrust of parliament, and nostalgia for communism have remained at often stunningly high levels, most systematically among older age cohorts.⁶³

Implicit in this argument is the counterfactual proposition that without resorting to abnormal retirement policies (Hungary and Poland) or job loss avoidance policies (Czech Republic), these governments would not have implemented post-communist transition as quickly and as fully as they have. In the face of high grievance levels by transitional losers, governments could have maintained political quiescence only by compromising on the speed and scope of democratic consolidation and/or economic reform. By way of illustration, the Freedom House index of political freedoms, which ranges from 1 (most free) to 7 (least free), indicates that Hungary, Poland and the Czech Republic all underwent significant progress from the mid-1980s to the mid-1990s, going from values of respectively 5, 5 and 6 to 1.5. But countries like Romania (2) and Bulgaria (2.5) had not advanced as much by the mid-1990s, whereas Belarussians (6) still suffered the same lack of political freedom as Czechoslovaks had had ten years earlier.⁶⁴ Similarly, economic reforms in countries like Slovakia, Romania and Belarus considerably lagged behind Hungary, Poland, and the Czech Republic, in terms of privatization and internal and external liberalization (de Melo et al, 1997). Success bred success: by the end of the 1990s and into the present century, Hungary, Poland and the Czech Republic occupied the top three spots within a sample of eleven post-communist countries with respect to economic and legal transition progress, economic freedom, and political freedom. And they vied for the top spots together with Slovenia with respect to country risk, press freedom, and corruption perception.⁶⁵

6.5. Conclusions

As in the previous wave of European transitions in Spain and Portugal, the first post-communist governments in Hungary, Poland and the Czech Republic successfully employed welfare policies to safeguard the fragile political stability of their new democracies.⁶⁶ Far from being fully constrained by structural and external variables, many crucial social policy choices made by successive Central European governments were precisely that—choices. Early social policies fundamentally reshaped the subsequent operational space of post-communist politics in the process. At a formative historical turning point, supply-side policies contributed to the maintenance of a high degree of political quiescence, despite conditions for conflict. Politically, they helped to channel the expression of

grievances towards protest voting and other peaceful repertoires, while intensifying the distributional struggle between generations. Once enacted, these policies were inherently difficult to reverse. They crystallized welfare regimes onto distinct political pathways over time. As shown in chapter 5, all three countries initially set up generous unemployment benefit programs, which were subsequently rolled back. In addition, the Czechs attempted to prevent large-scale employment losses and to maintain lower inflows into unemployment. This delayed the hardening of budget constraints and led to subsequent macro-economic crises. Hungarian and Polish governments split up threatened workers by allowing many to go on abnormal retirement. This led to soaring pension system dependency rates and necessitated radical systemic reforms in later years. Post-communist unemployment levels were lower in all three countries than they would have been in the counterfactual absence of these costly social and labor market policies. However, it is important to be clear about the alternatives to these policies. I have argued that fast and comprehensive progress on multiple reforms *without* significant protests was not a highly realistic scenario.

By this reading, divide and pacify policies acquire an element of political rationality. In collective action terms, the new abnormal pensioners no longer represented disruptive dynamite that needed to be defused—now. At most, they were a medium-term time bomb undermining welfare state *finances*—later. Faced with the risk of unemployment-inspired protests, the Hungarian and Polish governments could split up the high-risk categories into groups with different work–welfare status and a lower collective action capacity. Their prospects of avoiding large-scale protests could consequently be expected not just to be much better, but also to improve over time, potentially even despite rising unemployment levels. The social and distributional effects of long-term job loss combined with economy-wide trends leading to a decline in unionization levels to raise the collective action hurdles for threatened workers, unemployed people, and abnormal pensioners. Social policies thereby contributed to shaping the Hungarian, Polish and Czech success stories, in an otherwise highly heterogeneous population of post-communist transition cases.

NOTES

- 1 The following paragraphs draw on Vanhuyse (2004b).
- 2 Schrooten et al. (1999, 281). The fact that divide and pacify policies implied higher welfare expenditures follows from (4.2) and (4.3):

$$(r-\alpha)\sum_{i=1,x}\delta^i u_i w_i + \alpha\sum_{i=1,y}\delta^i p_i w_i > r\sum_{i=1,x}\delta^i u_i w_i.$$
- 3 Serious impediments to welfare-enhancing reforms can be expected to arise if (a) losses are certain or concentrated while benefits are less visible or diffuse, (b) the identity of winners and losers is uncertain ex ante, (c) voters are more sensitive to losses than to gains, or (d) median voters are elderly or approaching retirement age. See Olson (1965, 2000), Tversky and Kahneman (1981, 1987), Quattrone and Tversky (1988), Fernandez and Rodrik (1991), Browning (1975), Breyer (1994), Meijdam and Verbon (1996), Nelson (1997; 2001), Greskovits (1997, 1998), Myles and Pierson (2001).
- 4 See Pierson (1994; 1996; 2001a,b), Stephens et al. (1999); Huber and Stephens (2001), Swank (2001), Vanhuyse (2001).
- 5 Müller (1999, 62, 95, 128).
- 6 See Maret and Schwartz (1994), Boeri (1994; 1997a), Cichon et al. (1997, 17–19), Boeri et al. (1998), Müller (1999), Schrooten et al. (1999), Adam (1999), World Bank (1995), Andrews and Rashid (1996), Elster et al. (1998, ch.6), Palacios and Rocha (1998), Barr and Rutkowski (2005).
- 7 Müller (1999, 63, 96, 130, 150) bypasses this puzzle by repeatedly asserting that only in Hungary and Poland, the pension system “was used” (by whom? why? how?) as a substitute for unemployment benefits.
- 8 Müller (1999, 71, 150), Schrooten et al. (1999, 282).
- 9 On incrementalism, see Lindblom (1959), for a critique, see Goodin (1982).
- 10 Spéder (2000, 58–59), Boeri and Pulay (1998, 321). In newly united Germany, the federal government implemented similar abnormal retirement legislation targeting redundant post-communist workers. A federal “Employment Promotion Law” stipulated that certain redundant workers in the 55–60 age category who did not yet qualify for early retirement were entitled, as it were, to “abnormal” abnormal retirement in the form of “Alterübergangsgeld,” a “transitional pensions allowance” (*Arbeitsförderungsgesetz*, paragraph 249 e). This allowance would replace 65 percent of their former wage—until they could benefit from “normal” early retirement. Though part of a federal law, and financed from the federal budget, this law was specifically earmarked for the five East German Länder only.
- 11 Czepulis-Rutkowska (1999, 152). This regulation was withdrawn in 1996, only to be replaced by a similar solution whereby the elderly long-term unemployed receive pensions benefits from the Labor Fund, as opposed to the Pension Fund.
- 12 To be sure, the Suchocka government also presided over an episode of increased industrial disruption and it fell over issues that were sparked by these protests (Ekiert and Kubik, 1999). This highlights the political threat posed by disruptive tactics. At the same time, it underscores a number of other elements of the present theory. First, most of these protests were organized by workers with jobs in unions rather than by welfare state recipients such as the unemployed and pensioners. Second, when Suchocka took power in June 1992, her new government continued many of Balcerowicz’s austerity policies—

except for concessions to certain trade unions (modifications of wage controls and privatizations) and to farmers (promises of increased protectionism and one-time subsidies on fuel). Third, the flare-up of protests in 1993 should not obscure the fact that by international comparison Polish protests were not extraordinarily large-scale.

- 13 Beyond this, Pawlak's government also moved to enact new laws that further increased the value of minimum pensions and improved pension benefit indexation soon after winning the autumn 1993 elections (Cain and Surdey, 1999, 163–165). Clusters of government technocrats within each country, especially around politicians responsible for public financial affairs, did push more strongly for pension reforms towards the mid-1990s. For instance, a few months after assuming office in May 1994, the new Hungarian Finance Minister, Lajos Bokros, set out to work on a strategy to redress the imbalances of public finances, part of which was an (initially) radical blueprint for pension reforms. And Grzegorz Kolodko, who became Polish Finance Minister in April 1994, went public describing the country's pension system as "a veritable time bomb" (Nelson, 2001, 240). But it was still only from 1996 onwards that governments as a whole started to make systematic progress, first in internally negotiating, and subsequently in drafting and externally promoting pensions reforms (Müller, 1999). By that time, pension system dependency rates had further gone up to reach 61 and 84 percent in Poland and Hungary, and the electoral pensioner constituencies were concomitantly larger (figures 5.14 and 15).
- 14 To be sure, history is the result of human action, not of human design (Elster, 1989c). Unintended consequences play a major role in social life and often thwart unsophisticated functionalist or correlational explanations (Elster 1983; 1999; Boudon, 1976). But this is not to say that intention and design have no role to play in social explanation, especially when studying powerful elites facing momentous choices. Nor does the fact that the consequences of actions do not turn out as the actors intended imply that intentions cannot explain actions. On intentionality, see Taylor (1988b) and especially North (2005).
- 15 For similar methodological positions, see Elster (1993, 19fn.) and Rodrik (1996), for a broader framework, see North (2005). Boeri (2003) similarly points out that the generous social policy packages offered to working-age citizens in CEE countries but not in CIS countries cannot be explained primarily as resulting from declining tax revenues, as tax regimes themselves were a matter of decision for governments.
- 16 Levi (1997, 28) argues that "path dependence has to mean, if it is to mean anything, that once a country or region has started down a track, the costs of reversal are very high. There will be other choice points, but the entrenchments of certain institutional arrangements obstruct an easy reversal of the initial choice." On path dependence in politics, see also North (1990), Collier and Collier (1991), Myles and Pierson (2001), Pierson (1993; 1994; 2000; 2001a,b; 2004), and Wood (2001). For a critical note, see Alexander (2001).
- 17 World Bank (1995, 40). State pensions were the only source of income in 23 percent of Hungarian households and in 16 percent of Polish households in 1994 (Ferge et al., 1995, table 6.1).
- 18 By comparison, in the UK, where private pension funds play a much bigger role, pensions accounted for 60 percent of income in pensioner households, and own earnings for 3 percent. See Stanovnik et al. (2000, 25–26).

- 19 For detailed discussions of these pension reforms, see Inglot (2003), Müller (1999), Müller et al. (1999), Nelson (2001).
- 20 For formal models of intergenerational politics in aging democracies, see Browning (1975), Breyer (1994), Meijdam and Verbon (1996), Sala-i-Martin (1992) and Mulligan and Sali-i-Martin (2003). For empirical surveys and political theories, see Myles and Pierson (2001), Vanhuyse (2001, 2004b), and Sabbagh and Vanhuyse (2005). Rhodebeck (1993) shows how elderly voters in the US are more likely than other voters to cast their ballots based on welfare benefits. Campbell (2003) suggests that the single-mindedness of the elderly is both a determinant of their political clout and a response to welfare benefits.
- 21 See Zukowski (1999), Golinowska (1999), Simonovits (1999), Ferge (1999), Müller (1999).
- 22 Simonovits (1999, 220). Moreover, workers were *guaranteed* that any losses from entering in the private pillar would be compensated from the general budget.
- 23 Quoted from Ferge (1999, 243). In Ferge's (1999, 242) words, the state offered entrants a one-way lottery. Pensioners were also promised an increase by 6 percent in the real value of their pensions to take effect in early 1998—with elections being scheduled the following May (Nelson, 2001, 247). Eager to reduce the political costs of its showcase post-communist pension reform model, the World Bank offered a 150 million dollar loan specifically aimed at covering the deficit created by the Hungarian pension reforms (Ferge, 1999, 243).
- 24 In 1995, a new set of laws even set in motion a gradual retrenchment of the Czech pay-as-you-go system. The official retirement age was to be incrementally raised from 53–57 to 57–61 for women and from 60 to 62 for men. Benefits as a percentage of average gross wages were set to drop gradually, to 42 percent in 2005 and further to 38 percent in 2010 (Potucek, 2001, 94–95).
- 25 Myant and Smith (1999, 26), Garton Ash (1990, 80–84), Orenstein (2001, 65).
- 26 Bruszt (1993, 66–68). While the unions' power in this Council would subsequently be eroded with few repercussions for their militancy, their early inclusion served the government's new strategy of altogether avoiding large-scale unemployment. Thus the unions were made to accept a maximum drop in real wages of 12 percent for 1991 (Bruszt, 1993, 68).
- 27 Czech unemployment rates in 1994 were the second lowest (after Japan) in a sample of 26 OECD countries, with Hungary ranking eleventh, and Poland occupying the third-highest rate (after Spain and Finland) (Kabaj, 1996, 52). The present theory helps to make sense also of the observation that unemployment rates in Hungary and Poland during the early 1990s was actually strikingly low when compared to the fall in GDP and industrial output (Osa, 1998, 138).
- 28 Quoted from Orenstein (2001, 74). The "Radical Strategy" document furthermore called for a transitional social policy aimed at standing up to "the risk of extensive unemployment as well as spiraling inflation and a drop in real wages." This risk was to be reduced by means of "structural macroeconomic policies, labor market interventions, and welfare policies designed to preserve a social minimum" (Orenstein, 2001, 73–74). In contrast, in the Balcerowicz shock therapy plan, "responsibility for social problems was defined as a separate task from the reform process itself and relegated to the inventiveness of the minister of labor and social security, Jacek Kurón, and the

- charity of individual citizens. Hence, this was a pure trickle-down model of reforms” (Przeworski, 1993, 142).
- 29 Computed from Polish Ministry of Labor and Social Affairs (1996, 48, table III.9). In Hungary, “passive” expenditures for unemployment compensation went down from 2.2 percent of GDP in 1992 to a mere 0.5 percent in 1997. But these cuts were not compensated by a corollary increase in active labor market programs: in the same period the expenditures going to labor-market training and subsidized employment decreased from 0.5 to 0.3 percent of GDP (Boeri and Pulay, 1998, 324).
 - 30 Potucek (2001, 90). In 1992, these offices created more than 82,000 new jobs, over 1,000 places in protected workshops for disabled people and 25,000 places for community work, and they completed the re-qualification of 14,600 jobseekers.
 - 31 Kabaj (1996, 33, table 16). For comparison, the share of expenditures on active labor market measures was 28 percent in Denmark, 33 and 38 percent in France and Germany, and 30 percent in the UK.
 - 32 Inflow rates are the average annual rates of the number of people flowing into unemployment in a month divided by the number of people employed in a month, multiplied by 100. Outflow rates are the average annual rates of the number of people flowing out of unemployment in a month divided by the number of people unemployed in a month, multiplied by 100. Data computed from Ham et al. (1998, 1119).
 - 33 This share was 53 percent in Poland in 1992–1993 (Boeri, 1994, 135).
 - 34 Boeri (1997b, 908), Allison and Ringold (1996, 27–28). Kabaj (1996, 15) similarly finds that the share of long-term unemployment in Hungary jumped from 24 percent in 1991 to over 40 percent four years later. This process displayed many characteristics of a self-fulfilling prophecy. The larger the share of long-term unemployment, the lower the outflow rates per given level of unemployment and vacancies (Boeri, 1997a;b). See also Commander (1993), Boeri (1994a), Boeri et al. (1998), Ham et al. (1998).
 - 35 The incentives offered by various welfare programs are likely to have played a role in determining households’ labor market decisions and thereby the welfare path taken by society at large. For instance, employment rates of older men and women in the Czech Republic were much higher than in Poland and Hungary, at respectively 84, 53 and 44 percent for men aged 50–59, and 80, 46 and 17 percent for women aged 50–54 in 1996 (Boeri et al., 1998, 13). On the other hand, the Czech *Radical Strategy* plan envisaged a reduction of employment levels for women with small children and an increase of secondary schooling by one year (Orenstein, 2001, 71). In Hungary, the government introduced a child-raising support allowance in 1993, to be paid only to women working less than four hours per day (Boeri et al., 1998, 29fn.). Labor market participation levels of young women subsequently went down by 17 percentage points in the Czech Republic and by 29 points in Hungary.
 - 36 See Kornai (1980; 1992a; 1993; 1999); and Kornai et al. (2003).
 - 37 Computed from EBRD (2000, 156, 172, 196), see also Kornai (1999). The corresponding figures for 1993 and 1994 were 26 and 18 percent in Hungary, and 36 and 34 percent in Poland. The figures for the previous years in these countries, and for the years before 1995 in the Czech Republic, were unavailable.
 - 38 Computed from EBRD (2000, 156, 172, 196), see also Kornai (1999). The corresponding figures for 1991 and 1992 were 6.6 and 5.4 percent in Hungary, and 3.3 and 1.7

- percent in Poland. The figures for 1990 in these countries, and for the years before 1993 in the Czech Republic, were unavailable
- 39 EBRD (1997, 87). These data do not provide more fine-grained information on the nature and size of the firms that were declared bankrupt. Note that while between 1994 and 1996, average yearly productivity growth in manufacturing was virtually equal in Hungary, Poland and the Czech Republic, productivity levels were still lower in the Czech Republic (EBRD, 1997, 130–131).
 - 40 Stark and Bruszt (1997, 155), Orenstein (2001). Czechoslovak and Czech governments also continued to rely more heavily than other countries on wage controls and consumer subsidies, notably of rents, heat, electricity and transport (Müller, 1999, 138–139; Elster et al., 1998).
 - 41 Of course it is possible that in later years a greater proportion of straightforward cases (more likely to be successfully completed) were filed for bankruptcy.
 - 42 The sections below draw on Vanhuyse (2004b).
 - 43 However, the conservative minority government that ruled the Czech Republic from mid-1996 until the 1998 elections was dependent on the silent support of the Social Democratic Party.
 - 44 Economists have extended pluralist theories to argue that the free interplay of interest groups in democracies generally produces efficient results (Wittman, 1995). For a critique, see Vanhuyse (2002a).
 - 45 One could argue, tautologically, that in the case of ascriptive groups such as pensioners the relevant definition of actual membership is that of belonging to the ascriptive group. The usefulness of such a definition would be limited, as it would lead to mobilization rates of one hundred percent.
 - 46 See Müller (1999, 115, 142). In Poland, the National Party of Invalidity and Old Age Pensioners, founded in May 1994, did belong to parliament, but only as part of the left-wing opposition fraction (the SLD). Moreover, this pensioner party already split before the 1997 elections, and neither of its remaining splinter parties could subsequently gain representation in those elections.
 - 47 Golinowska (1999, 186), Ferge (1999, 237). Müller (1999) frequently refers to the political clout of pensioners and the “grey lobby,” but she does not provide empirical evidence of such influence. Only in the Czech Republic did collective protests occur which were centered specifically around *pensions* demands (in December 1994 and March 1995). But they protested against the *surpluses* of the pension system being used to finance *other* programs (Müller, 1999, 137).
 - 48 See Milanovic (1995, 29), Inglot (2003, 227). Criticizing “the post-communist politics of welfare state entitlement,” Jeffrey Sachs (1995, 2) argued that “rather than seeing the Eastern European elections as great referenda on the market system, or on capitalism versus communism, or even as protest votes against harsh reforms, one can see that the elections in Eastern Europe have become almost exactly like elections in Western Europe and the United States: dominated by interest group politics.”
 - 49 Cited in Inglot (2003, 227).
 - 50 These considerations also cast doubt on “social needs” theories of welfare. For instance, Inglot (2003, 223) explains the maintenance of high-level pension replacement rates in Poland until 1996 despite drops in GDP and real wages as indicating “a deliberate government effort to safeguard the livelihood of the social group considered

likely to suffer most during economic shock therapy.” As chapter 5 has shown, other social groups suffered much more during the transition, yet they were not favored by governments.

- 51 In the run-up to the subsequent pension reforms of 1996–1997, the executive branch of government remained strongly predominant. In both Hungary and Poland the reforms were a matter of intra-governmental negotiation—in Hungary by means of an inter-ministerial committee, in Poland by means of an extra-ministerial Plenipotentiary for Social Security Reform attached directly to the prime minister’s office (Nelson, 2001, 244). In Hungary, the impact of various lobby groups such as the Party of Pensioners, the Association of Large Families, the Social Policy Association and even the Prime Minister’s Council of the Aged was widely perceived to be small. In Ferge’s (1999, 238) words, “the voice of ‘civil society’ got little publicity in the media, and remained largely unknown to the general public.” In May 1997, the government simultaneously introduced five major drafts of law on pension reform before parliament and imposed a time limit of just 30 hours for parliamentary debate. A minority of MPs attended the discussion sessions, and even the rigid time constraint for discussion proved too much: the parliamentary voting on all five acts took place two weeks earlier than foreseen (Nelson, 2001).
- 52 After the Hungarian founding elections of March 1990, the next nation-wide elections were held only in May 1994. On 15 February 1994, parliament duly passed a law raising pensions benefits by 10 percent starting (backward) from 1 January, and it raised pensions further by 8 percent on 4 October (Róbert and Nagy, 1998). In Poland, pensioners had more frequent opportunities to make their voting weight count. Partly free “founding elections” were held in June 1989, after which nation-wide elections were held again in May 1990 (for local governments), November–December 1990 (for president), October 1991, and May 1993 (both for parliament).
- 53 Jackman and Rutkowski (1994), Ost (2001).
- 54 Ferge (1999), Müller (1999). Thatcher’s three Industrial Acts between 1980 and 1984 are another example of government erosion of trade union power resulting in a significant loss of strike capacity (King and Wood, 1999; Wood, 2001).
- 55 Ost (1995; 2001; 2005), Bruszt (1993), Tóth (2001). Though such alliances were not present in the Czech Republic until at least 1998, union decline was equally marked (Pollert, 2001). On Latin American union-party interactions, see Collier and Collier (1991), Sandoval (1998), and Murillo (2000). On conflicting objectives between leaders and members of unions, see Crouch (1982), Golden (1997; 1999).
- 56 Though politically equivalent, the Romanian packages resulted in transfer to actual unemployment status. Established by government decree 22 in 1997, the miners’ package provided an additional twenty months’ pay for workers with over fifteen years’ seniority, but less than 12 months’ pay for less senior workers (Kideckel, 2001, 107–108).
- 57 On union density, see ILO (1997, 237–238, 240), on coverage, see ILO (1997, 248). See also Crowley (2004, 402–407).
- 58 Post-communist labor decline has been documented in insightful work by David Ost (1993; 1995; 2000; 2001; 2005) and Stephen Crowley (1997; 2004); see also Crowley and Ost (2001). On new forms of Western labor–capital cooperation, see Wood (2001), Rhodes (2001), the contributions to Kitschelt et al. (1999), Scharpf and Schmidt

- (2000), Bermeo (2001a) and Hall and Soskice (2001), and the review by Pop and Vanhuyse (2004).
- 59 Ekiert and Kubik (1999, 129). In Hungary, officially authorized protests already represented 86 percent of all protest actions by 1993 (Róbert, 1999, 101).
- 60 As a result, the year 1993 was characterized simultaneously by the highest number of protest days and by the lowest rate of disruptive to non-disruptive protest strategies in Poland (Kubik, 1998, 140, 145).
- 61 This is because Ekiert and Kubik (1999), like Osa (1998), uniformly coded all demonstrations as disruptive. Yet there is no *a priori* rationale for doing so.
- 62 For example, protest events in 1990 included peaceful demonstrations about the World War I Treaty of Trianon, Lithuanian independence, and Hungarians in Romania. In 1991, there were demonstrations against the Gulf war, against the Soviet intervention in Vilnius, and in commemoration of the 1956 revolution (Virág, 1996; Kovács, 1996; Mezei, 1996; Füzér, 1996; Szabó, 1996; Péchy, 1996; Szabó, 1996). Following Ekiert and Kubik's definition, all these events would have been coded as disruptive, thus inflating the ratio of disruptive to non-disruptive protests.
- 63 On unemployment and anti-incumbency voting (an emergent electoral trend in most of post-communist Europe), see Fidrmuc (1999) and Bell (1997). On citizen attitudes, see Rose (2002), Rose and Carnaghan (1995), Rose and Haerpfer (1992, 1998), Rose et al. (1998).
- 64 Freedom House (1997, 6). Similar results obtained with respect to corruption (Rose et al., 1998, 221; Lipset and Lenz, 2000, 114).
- 65 Ekiert (2003, 95). See also de Melo et al. (1997), Vanhuyse (1999), Kitschelt (2003).
- 66 On Spain see Maravall (1993, 1999). As Torres (1994) and Bermeo (2001b) indicate, after the Revolution of the Carnations in 1974, the new Portuguese government delayed privatization to shelter highly unionized and traditionally militant workers in the large state-owned sector from redundancies until 1988–1990, when democracy was consolidated and EU membership brought new investments and subsidies. The frequency of strikes between 1974 and 1980 was much lower than in subsequent years (Stoleroff, 2001, 180). But by then, the power of Portuguese unions was eroded due to the structural and macro-economic factors discussed here in the post-communist case.

CHAPTER 7

Conclusions

The 1990s have been a high-charged, fast-paced decade in Central and Eastern Europe. These years have seen great hopes, widespread disappointments and, crucially, stunning accomplishments in reforming communist states into liberal market democracies. The fall of the Berlin Wall, the mass demonstrations at Prague's Wenceslaus Square and the many other popular movements that precipitated the demise of communism in the heady days of late 1989 were followed by socially costly yet politically peaceful transition years. To many observers, this post-communist quiescence was theoretically unexpected and historically surprising. This book has put forward a new set of explanations for this puzzle. My focus has been on Hungary, Poland, and the Czech Republic, but the arguments and mechanisms proposed here have a wider relevance for other democracies engaging in costly reforms. The aim was to fill in macro-level contextual variables with intermediate sociological, political, and policy variables in an attempt to build a more fine-grained theory of social policies and protest politics. Key to this has been the analysis of how strategic social policies could split up core groups of threatened workers and thereby prevent large-scale disruption in the polity. Policy packages that split up threatened workers were likely to enhance governments' success in implementing economic reforms in the early 1990s. While unlikely to have quelled society's underlying discontent, these policies could help to reduce the capacity of reform losers to use violent and disruptive repertoires for expressing their discontent.

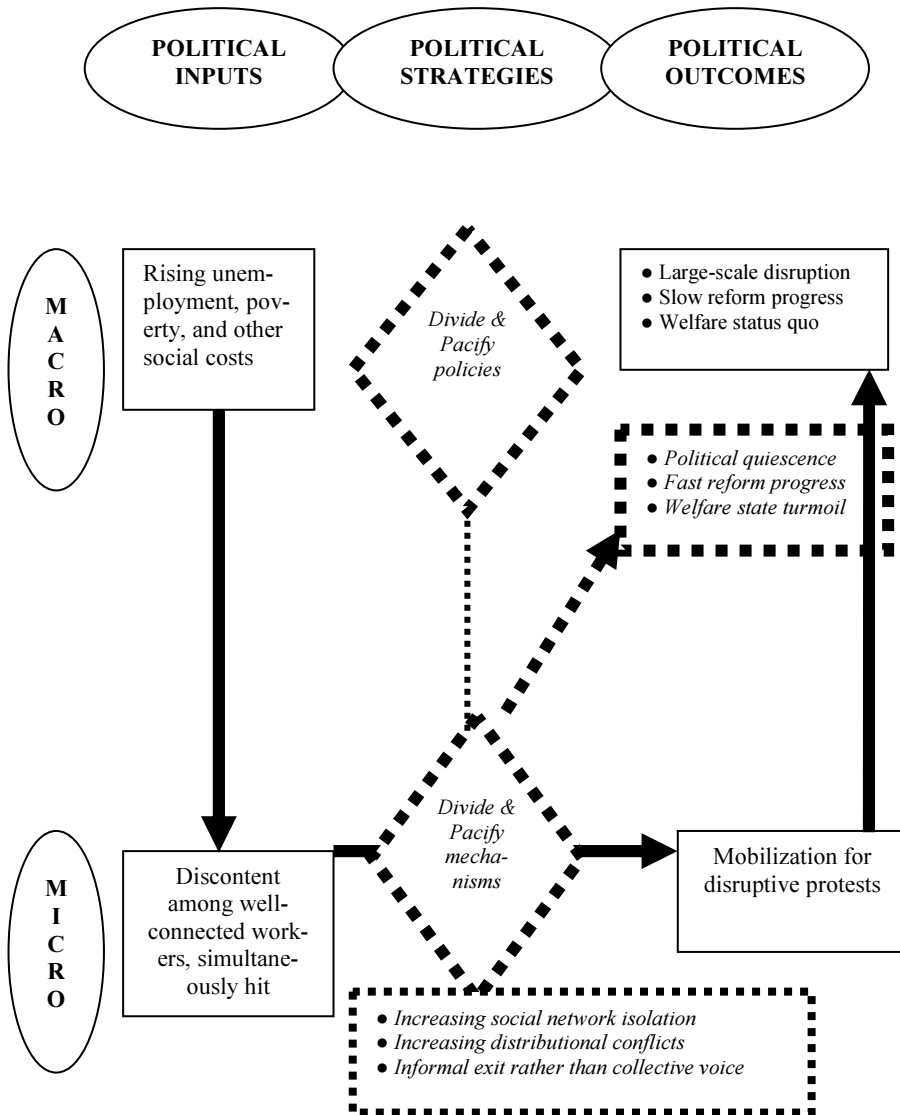
In part, divide and pacify strategies channeled the expression of political opposition towards more orderly repertoires such as negotiations, public statements, petitions, and letters. In part, they sentenced aggrieved

groups to political “silence” until election time and to (anti-incumbency) voting in the polling booth (Greskovits, 1998). In so doing, governments proactively forced a degree of peace (non-disruption) and patience (intertemporal thinking) upon society as it was crossing the transitional “vale of tears.” This bought them the operational space needed to make substantial and frequently irreversible progress in consolidating democracy and in reforming the economy. The latter part of the book has assembled an array of evidence indicating that between 1989 and 1996, abnormal retirement policies have been implemented on a massive scale in Hungary and Poland, while Czech governments have prevented layoffs through pro-employment labor market policies and softer budget constraints. In the first two cases, divide and pacify strategies have led to unprecedented booms in the numbers of working-age individuals leaving the labor market in order to take up various forms of non-elderly retirement. Redressing an imbalance in existing explanations, I have argued that, far from being the sole result of external macro-economic conditions and non-intentional or “non-political” decision-making, these booms contained a degree of political rationality.

This account has simultaneously acknowledged and circumscribed the roles of “structure” and “history” in explaining post-communist protest levels. Given the strong and pervasive effects of the communist one-party systems on Central European societies for over four decades, it would be unwarranted to dismiss these concepts entirely.¹ But we need to move beyond highly aggregate concepts such as the novelty of democracy, the presence or absence of tripartite bargaining, or variables such as average population age, rural density, overall welfare spending, poverty, or income inequality. Rather, history and structure can be specified at intermediate levels and as partly subject to manipulation by governments, rather than inherited or invariant beyond strategic action. By this reading, macro-structural variables play a role in determining to what extent the environment could be conducive to the emergence of collective protests. But the theoretical baseline of explanations of protests must nevertheless reside in an account based on purposive actions, not just by members of the aggrieved groups,² but also in the form of proactive policies by governments. Thus average population age was less important in explaining post-communist protest levels than the particular work-welfare set-up of society and the relative share of workers and pensioners within any given age group. Likewise, whether aggregate social spending could reduce protest levels depended on the particular groups the expenditures were

destined for. Figure 7.1 indicates how the material incentives and the social ties resulting from divide and pacify policies provide micro-level mechanisms linking the social costs of transition to political quiescence and fast reforms at the macro level.³

Figure 7.1. Divide and Pacify: the causal mechanisms



By many yardsticks, there appeared to be a high likelihood of social instability around 1989–1990. Structural legacies from the communist period included large farming populations and high levels of unionization, in large and non-competitive industrial firms. These were segments of the workforce which were relatively protected during communism. In previous decades, a certain degree of income security to farmers was guaranteed by the persistence of systemic food shortages and of widespread subsidies on basic foodstuffs. The ideological commitment to full employment and the heavy reliance on industry in these workers' states created employment for many workers who may not have kept their jobs in more competitive environments. These groups were hit especially hard, and often simultaneously, by subsequent reforms. In a short period of time, per capita incomes and real wages went down. Prices of basic commodities, poverty, and unemployment rates all went up. Yet this does not imply that large-scale protests were a foregone conclusion (the full lines).

The capacity to organize for disruptive protests is likely to vary significantly even between groups which are similar on many relevant criteria. Transferring threatened workers to the status of unemployment or retirement could be expected to reduce aggregate protest levels because the new social and material circumstances of the latter groups led to higher hurdles for collective action (the dotted lines). From well-connected members of local workplaces, threatened workers were transformed into impoverished members of large and anonymous ascriptive categories of welfare program dependants. As a result, they retreated to the household sphere. At a minimum they no longer formed part of daily convening working environments that could easily mobilize for disruptive protests. At a time of increasing economic insecurity, the unemployed and the abnormal pensioners also had compelling material incentives to earn informal private incomes rather than pursue public goods through collective action. Positive feedback mechanisms in the form of increasing social isolation and distributional conflicts further raised the hurdles for reform losers to mobilize in later years.

While strategic social policies deserve greater attention than they have hitherto received, they evidently do not constitute a single-factor explanation. Rather than abnormal pensions or pro-employment policies, pacifying strategies took the form of wage-arrears-cum-employment in Russia (Gimpelson, 2001). Baltic governments and other post-Soviet states at times kept their Russian-speaking minorities quiet by playing the ethnic-nationalist card (Laitin, 1998). Social policies also combined with other

trends in progressively pacifying post-communist polities. I have discussed the continuing high levels of informal exit, the progressive replacement of unionized by non-unionized forms of employment, and the strategic ineptness of union leaderships in defending the material interests of their rank and file. Other factors equally played a role.⁴ In a rich and insightful ideational account that complements this book's focus on *government* strategies, David Ost (2005) has shown how Solidarity, as a political party and a trade union, attempted to salvage economic liberalism in Poland by diverting the expression of worker grievances away from class-based reform protests and towards politically illiberal outlets. These ranged from right-wing nationalism and neo-liberal populism to Christian-Catholic extremism, lustration campaigns, and similar anti-communist witch hunts. The result, foretold by Ost (1993) and Greskovits (1998), has been a low quality of *liberal* democracy going hand in hand with the uncontested functioning of procedural democracy in post-communist polities.

Two further specifications are in place here. First, it is important to stress that the present analysis does not preclude the occurrence of large-scale protests even among the unemployed and pensioners. Rather, it posits a general *ceteris paribus* argument. In the presence of policies that split up relatively well-connected workers into different work-welfare categories, there will be comparatively fewer protests. So whereas these groups may still be mobilized by political entrepreneurs or may manage to build coalitions with other groups of actors such as trade unions, such mobilization is likely to prove more difficult after the implementation of divide and pacify policies. In explanations of large-number events, it is useful to distinguish between underlying and precipitating causes (Przeworski, 1991). In these terms, the new work-welfare status of the unemployed and abnormal pensioners in Hungary and Poland translated into more prohibitive underlying conditions for protest mobilization. While nothing precluded that these could be overcome by individual action, doing so was going to require concomitantly larger precipitating factors. Thus, entrepreneurs were likely to find it harder to overcome the hurdles of the adverse network ties and material struggles of the unemployed and the pensioners. And existing distributional conflicts pitching pensioners against workers and other welfare groups were further aggravated by divide and pacify policies. For instance, the financial precariousness of the pay-as-you-go pension systems that resulted from the abnormal pensioner booms imposed harder taxation burdens on current workers in order to

finance current pensions. At the same time, it rendered the value of current workers' future pensions progressively more uncertain, thus weakening the argument that watering down their distributive demands now would be paid back by deferred wages later.

Second, while state policies aimed at transferring threatened workers onto welfare programs could be expected to reduce the scale and incidence of disruptive protests in the polity, they were unlikely to reduce the amount of social and political discontent. In the presence of divide and pacify strategies, decreasing (or low and stable) levels of disruptive protests were in principle compatible with increasing (or high and stable) levels of general political disgruntlement. Grievances could actually be expected to increase *as a result* of the very success of these strategies in silencing reform losers' disruptive capacity. Divide and pacify policies were no omnipotent Machiavellian master plan. Although the Czech Republic long remained a rare exception to the emerging "law" of post-communist anti-incumbency voting, the senior government parties in Hungary and Poland lost office in every general election. And large parts of the population, especially elderly cohorts, continued to express often alarming levels of political and democratic disaffection throughout the 1990s. These post-communist disappointments, I submit, had as much to do with the particular ways in which successive political elites have straitjacketed the expression of political protests as with irrational expectation formation on the part of a citizenry allegedly lacking experience with democratic politics.⁵

At the same time, we must neither forget nor belittle the fact that early post-communist governments, acting in often bewilderingly complex and uncertain policy environments, achieved the immediately urgent goal of political quiescence largely against the odds. This in turn provided them with the operational space to quickly entrench the market economy and the formal institutions of democracy, however imperfect these may still be today. To be sure, these early social policies carried a heavy price tag. From a narrow economic or public-financial viewpoint, they appeared to have all the trappings of sheer bad design. Avoiding the hardening of budget constraints early on only led to belated macro-financial troubles in the Czech Republic. Sending hundreds of thousands of working-age Hungarians and Poles onto abnormal pensions doubly endangered the financial viability of pension systems. It reduced the number of taxpayers and simultaneously raised the number of welfare recipients, with straightforward consequences in terms of financial equilibrium and systemic re-

form. In one stroke, these policies also shifted both “new” Eastern European democracies onto the same distributional logic that was already becoming ever more dominant in “old” Western democracies—the politics of gerontocracy, in which favorable policies for elderly generations increasingly come at the expense of younger generations.⁶

Yet a number of considerations should restrain us from prematurely jumping to conclusions about the rationality, or lack thereof, of these policies. As I have indicated in chapter 4, early exit policies, despite their cost, may have contributed to strictly *economic* efficiency, through at least three mechanisms.⁷ Removing the subset of workers with particularly outdated labor market skills at a time of rapid skills depreciation may have raised average productivity levels in these reforming economies. By offering threatened workers relatively secure pensions, early exit policies may have helped to solve time inconsistency problems in compensating less productive workers for moving out of their current jobs. By reducing individual-specific uncertainty about whether any worker would become a reform loser, these policies also helped to reduce political opposition to efficient reforms. In all these cases, the prospect of joining normal pensioners in a powerfully enlarged electoral constituency acted as an additional political guarantee. Threatened workers—prospective abnormal pensioners—could safely exit the increasingly uncertain “reform protests” game knowing that they might have better chances of success by entering a new distributive game of “generational politics.”

These last arguments serve to bolster a more general point about political economy and public policy. A more inclusive social–scientific perspective can be of value here, as it can shed new light on seemingly incongruous economic trends by pointing to deeper political constraints and motives and to wider sociological consequences of public policies. I have argued that strategic social policies aided post-communist governments in achieving fast and full-scale progress in institutionalizing democracy and the market by avoiding high levels of political and economic disruption. These policies contained an element of *political* rationality, as they helped to pacify the Hungarian, Polish and Czech polities at a time when the short-term likelihood of large-scale anti-reform protests was highest. In so doing, early social policies contributed to the much-vaunted success stories of these three transitions, which attained their symbolic completion with full accession to the European Union on May 1st, 2004—less than fifteen years after the fall of that infamous wall.

NOTES

- 1 For theoretical perspectives on history and structure, see North (1981; 1990; 2005). For comparative perspectives, see Ekiert and Hanson (2003), Mahoney and Rueschemeyer (2003).
- 2 On the protester's and resistant's perspective, see Golden (1997; 1999), Laitin (1999), Petersen (2001). By the same token, the *absence* of significant protests by civil society (Howard, 2003) or unions (Crowley, 2004) cannot be fully explained by mere reference to structure, legacy or history. Influential structural arguments include McAdam et al. (1997) and Tarrow (1998) on contentious politics and Haggard and Kaufman (1995) on democratic transitions.
- 3 This goes some way towards answering calls to go beyond macro-level correlations and to furnish social explanations with macro–micro–macro transitions (Alexander et al., 1987; Coleman, 1990) and middle-range mechanisms (Merton, 1968; Elster, 1989a,c; 1999; Hedstrom and Swedberg, 1998). Insightful applications include Hirschman (1970; 1993), Schelling (1978; 1998), Kuran (1995), Laitin (1999), and Petersen (2001).
- 4 For instance, the velvet divorce of Czechoslovakia in 1993 may have enabled the Czechs to continue fast reform progress by shedding some particularly non-competitive rural and smokestack–industrial Slovak regions. Similarly, towards the end of the 1990s and into the present century, the prospect of European Union membership provided a spur and compass for post-communist policy reforms (Barr, 2005). The continuing weakness of non-unionized civil society also contributed to peaceful transformations (Howard, 2003).
- 5 See Ost (2005) on how Polish liberals lost labor. Inspiring theories of disappointment and expectation formation include Merton (1968), Boudon (1977; 1986), Elster (1983) and Hirschman (1970; 1973; 2002). For post-communist evidence, see Rose (2002), Rose and Carnaghan (1995), Rose and Haerpfer (1992; 1998), Rose et al. (1998).
- 6 On generational politics, see Browning (1975), Rhodebeck (1993), Breyer (1994), Meijdam and Verbon (1996), Campbell (2003) and Mulligan and Sala-i-Martin (2003).
- 7 See respectively Sala-i-Martin (1991), Dixit and Londegran (1995), and Fernandez and Rodrik (1991). On constrained efficiency in political economy more generally, see Vanhuyse (2002a) and Dixit (1996).

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Pieter Vanhuyse ... is a political scientist, an economist and a sociologist in one person. Through his original synthesis of insights from these various disciplines, he shows how an interdisciplinary perspective can help to make better sense of phenomena that appear to be puzzling, or that remain undressed, from the point of view of any one discipline. ... **Divide and Pacify** ... suggests that extensive social policies can be politically efficacious strategies, while never forgetting that such measures are needed to alleviate people's suffering in the midst of traumatic social changes. ... the core message of this book is important, and it has a larger relevance across many settings in which democratic governments face the task of implementing costly reforms in complex and uncertain policy environments.

From the Foreword by János Kornai

Divide and Pacify contains a provocative thesis about the manner in which political strategy was used to consolidate democracy in post-communist Hungary, Poland, and the Czech Republic. **Pieter Vanhuyse** develops a tight argument emphasizing the strategic use of welfare and unemployment compensation policies by a government to nip potential collective action against it in the bud. By breaking up social networks that might otherwise facilitate protest, through unemployment and induced early retirement, governments were able to survive otherwise difficult economic circumstances. This novel argument linking economics, politics, sociology, and demography should stimulate wide-ranging debate about the strategic uses of social policy.

Kenneth Shepsle, Professor, Harvard University and Fellow, American Academy of Sciences

In post-communist Europe, international advice – for example from the International Monetary Fund and the World Bank – to reforming governments focused heavily on economic policy. The political imperative, in contrast, was a set of policies generous enough to maintain continuing support for the overall reforms. The great value of this book is that it addresses both strategic policy directions simultaneously. Specifically, it analyzes how policies that are sub-optimal in economic terms (work in the grey economy, easy access to unemployment benefits, fiscally expensive early retirement) can be argued to be optimal (or at least roughly so) when considering economics and politics together. As such, the book offers a rich political economy perspective on post-communist reforms.

Nicholas Barr, Professor of Public Economics, London School of Economics and Political Science

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